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PAAD

MALI
ECONOMIC POLICY REFORM PROGRAM
(688-0240)

USAID/MALI

AGENCY FOR INTERNATIONAL DEVELOPMENT

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ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM : AFR/PD, Laurence Hausman

SUBJECT: The Mali Economic Policy Reform Program (688-0240) - Project Authorization

I. Problem:

(i) You are requested to authorize a grant of $18,000,000 from the FY 1985 ESF funding designated for Economic Policy Reform Programs in Africa. It is planned that all of these funds will be obligated in FY 1985, with conditional disbursements made over a three-year period as policy reform measures are implemented.

(ii) You are also requested to delegate authority to the Director, USAID/Mali, for negotiating and approving modifications in the Program Conditions Precedent to disbursement, due to unforseen changes in circumstances, after the dollar disbursement of the first tranche of each Program component has been made.

II. Discussion:

A. Program Objectives:

The goal of the Economic Policy Reform Program (EPRP) for Mali is to support long-term sustainable growth. The purpose of the EPRP is to support the Government of the Republic of Mali (GRM) in its efforts to: (a) provide an environment conducive to expanded economic growth and employment in the private sector; and (b) reduce the burden of the public sector on the economy while increasing its efficiency.

To accomplish these objectives, the Government of the Republic of Mali will carry out:

1. A reduction in regulatory controls on commerce and industrial activity in Mali (through revision of the Commercial Code and revised legislation on pricing);

2. Tax reform to establish a more equitable tax system providing incentives for private sector growth and the creation of employment opportunities, accompanied by measures to improve tax administration;

3. A reallocation of public budgetary resources; increasing the amount directed toward non-wage recurrent expenditures to ensure effective accomplishment of necessary tasks, by decreasing the proportion required to meet the public payroll; and

4. The privatization and/or closure of selected public enterprises, accompanied by policy and institutional

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reform, leading to greater efficiency of public enterprises as well as greater accountability.

EPRP funding will give the GRM the financial flexibility to move ahead on this reform agenda. None of the measures requires sustained external financing but their implementation implies extraordinary, short-term expenditures or revenue losses which must be offset in some way. This Program is being undertaken in the context of various policy reform activities involving the IMF, IBRD, and other donors as well as grain pricing and marketing policy reforms facilitated by the use of PL 480, Section 206 funds. To assure sustained political commitment on the part of the GRM to specific reforms, release of EPRP funding will be conditioned on progress actually attained in carrying out the specified agenda and to GRM/USAID policy dialogue on areas for further action. There is already a significantly increased commitment at top levels of the Malian Government to allocate to the private sector and the marketplace a much larger role in economic decision-making. The Government is also becoming increasingly aware that concrete policy and institutional reforms are necessary to encourage the private sector to expand. There is broad agreement at both technical and ministerial levels of the GRM as to the desirability and feasibility of the proposed series of policy reform measures to be supported by the EPRP financing. Annual joint USAID/GRM reviews of problems and progress in implementing these measures will provide a mechanism for close monitoring and redirection, if necessary, of the reform-related activities.

B. Brief Description of Principal Program Components

The revision of the present Commercial Code will result in a single document containing all regulations concerning commerce in Mali. The new Code reflects a more realistic and modern approach to doing business, better defines conditions involving conflict of interest, removes restrictions on employees entering into business similar to their employers, and greatly reduces the regulatory and licensing constraints to entering into business.

The new pricing legislation will introduce the concept of market-determined prices into Malian law. Although the prices of a few basic commodities will continue to be fixed and/or regulated, the prices of 80 percent of commodities traded will be determined by supply and demand.

The goal of the tax reform is an improved environment for private sector investment, employment creation, and productivity. The specific objectives of the reform are a gradual movement toward lower tax rates, a better distribution of the tax burden among taxpayers, and strengthened tax administration. In the short-term, a reduction in tax rates will result in revenue shortfalls; these will be offset on a declining basis by EPRP financing. By year 3 of the Program, administrative improvements should be firmly in place, not only compensating for the losses due to rate reductions, but providing additional revenues as well. In the medium- to long-term, the tax reforms should result in reduced incentives to evade taxes and commit fraud and in an expanded tax base as growth of private sector businesses in Mali is encouraged.

Reducing the burden of the public sector on the economy while increasing its efficiency will require substantially slowed growth in the number of civil servants and reallocation of budgetary expenditures. The net result will be a restructuring of the expenditures side of the public budget. The present weight of the public sector wage bill results in such seriously reduced allocations to non-wage recurrent costs that productivity is negatively affected. Two measures are required to reduce the wage bill: placing limits on hiring of new personnel and encouraging some of those already hired to leave. These actions will free up budgetary resources, permit the sustainable restructuring of the public budget, and ensure that those working in the civil service have materials with which to work effectively.

C. Financial Summary

The total financial support to be provided by the Mali EPRP to the GRM economic policy reform agenda is estimated at $18,000,000.

The following is a breakdown of EPRP financing by expenditure category:

Dollar Disbursement for Tax Reform	$ 8,315
Dollar Disbursement for Budget Restructuring	8,365
Commodity Procurement	490
Technical Assistance	770
Training	60
TOTAL	$18,000

D. Benefits

The Program Assistance Approval Document (PAAD) contains detailed information on expected Program benefits. It indicates in qualitative terms the nature of the broad changes which are expected to occur in the structure of the Malian economy as a result of the policy reform measures implemented. It also discusses the assumptions underlying the projected $14 million in additional Government revenues which are anticipated to result from tax reform efforts over a three-year period and the more than $50 million in budgetary savings on the personnel account which will be available for non-wage recurrent costs over a 15-year period.

E. Implementation Plan

The principal GRM executing agency will be the Ministry of Finance. Technical assistance will be limited to coordination and monitoring and to the procurement and installation of computer equipment, and training of Ministry staff in its use. Any additional technical assistance or training needs will be funded from other Sahel Development Program projects. The Bureau Environmental Officer has approved the Mission recommendation that the Program should be granted a "categorical exclusion" as it involves only dollar disbursements, technical assistance, and office equipment.

F. Conditions and Covenants

Conditions and covenants to be applied for subsequent disbursements are described more fully on Page 2 of the PAAD Facesheet. Conditionality on the major part of the EPRP financing will ensure that the GRM plans for reform are in fact implemented and that desired objectives are attained. It should be noted that no benchmarks have been set for the condition precedent dealing with privatization of public enterprises (parastatals) under the budget restructuring component. This is a minor element of the project. The Mission will be instructed to develop a negotiating position regarding minimum targets which should be met prior to the disbursement of the first budgetary reallocation tranche.

In view of the complexity of some policy reform-related actions which are to be carried out by the GRM to fulfill the terms of the Program Grant Agreement, it is recommended that the Mission be granted authority to establish annual targets for tax reform and budget structuring components, adjust them, and determine whether targets as evidenced in the conditions precedent to subsequent disbursements are met; however, changes in conditions precedent for disbursement of the first tranche of each component must be approved by AID/W. Through the continuous monitoring of the Program Coordination Unit (PCU) and the joint GRM/USAID annual review process described in the PAAD, the Mission will have ample opportunity to consider problems and progress in depth; the Mission Director will draw on this information to make the final determination as to the fulfillment of the Conditions Precedent for each tranche. USAID/Mali will keep AID/W informed about progress being made to satisfy conditions precedent. Any changes in these conditions will be formally documented in PAAD amendments, and AID/W will be provided copies of these revised documents.

G. Responsible Offices

USAID/Mali will provide a project manager for implementation of the Program. AFR/PD/SWAP will be responsible for backstopping the Program.

III. Justification to Congress

A Congressional Notification was sent to Congress on July 26, 1985 and the waiting period expired August 10, 1985 without objection.

IV. Gray Amendment Objectives

The Mission will encourage to the maximum extent possible the involvement of small business concerns, small disadvantaged business concerns, and women-owned small businesses as contractors and sub-contractors. In this respect, the Mission is looking into the possibility of using a small business concern for procurement of computers and technical services.

V. Recommendation: It is recommended that you approve the attached Program Authorization and thereby approve life-of-Program funding of $18,000,000. It is further recommended that, after the dollar disbursement of the first tranche of each Program Component has been made, authority be delegated to USAID/Mali for negotiating and approving modifications in the Program Conditions Precedent to disbursement, due to unforeseen changes in circumstances.

Approved: Mark L. Edelman

Disapproved: ______________

Date: 8/12/85

Attachment

Program Assistance Approval Document

Clearances:

DAA/AFR/WCA:LRichards
GC/AFR:TBork
AFR/CONT:DFBrown
AFR/SWA:DChandler (draft)
AFR/PD/SWAP:SPShah
AFR/DP:HJohnson
PPC/PDPR:DMcClelland
M/FM/PAD:EOwens

Drafted by: AFR/PD/SWAP:CCantell/ESimmons:8/6/85:2531M

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ANNEXES:

CLASSIFICATION:

AID 1120-1 **PAAD**	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT **PROGRAM ASSISTANCE APPROVAL DOCUMENT**	1. PAAD NO: 688- K- 601 2. COUNTRY: Mali 3. CATEGORY: Dollar Disbursement Program Grant 4. DATE: August 1, 1985

5. TO: Mark L. Edelman Assistant Administrator for Africa	6. OYB CHANGE NO.
7. FROM: David M. Wilson Director, AID/Bamako	8. OYB INCREASE TO BE TAKEN FROM:
9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 18.0 million	10. APPROPRIATION - ALLOTMENT

11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
☐ LOAN ☒ GRANT	☐ INFORMAL ☐ FORMAL ☒ NONE	9/85 - 9/88	

15. COMMODITIES FINANCED

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:		U.S.:	$1.0 million
Limited F.W.:	$1.3 million (inc. Mali)	Industrialized Countries:	
Free World:		Local:	$17.0 million
Cash:	$16.7 million	Other:	

18. SUMMARY DESCRIPTION

The implementation of certain economic policy reforms in Mali over a period of three years will be facilitated by a Program Grant of $18.0 million. Approximately $16.7 million of the Grant total will be executed as conditional dollar disbursements; these dollar disbursements will be complemented by limited technical assistance, commodities, and training estimated at approximately $1.3 million.

Subject to the availability of funds and mutual agreement of the Parties to the terms and conditions set forth in the Program Assistance Approval Document (PAAD) attached, dollar disbursements will be made to the Government of the Republic of Mali (GRM) upon fulfillment of benchmark conditions laid out in the Program Grant Agreement regarding major policy reforms. These reforms include: revisions of the Commercial Code and pricing legislation to encourage private sector commerce and industry; tax reform; privatization of public enterprises; and budgetary restructuring. Disbursements linked to regulatory change and tax reform will be made in annual tranches of approximately $2.6, $3.5, and $2.2 million, respectively. Dollar disbursements linked to meeting of conditions related to the privatization of public enterprises and budget restructuring will not be on a strictly annual basis. An initial disbursement of $880,000 will be made following the signature of the Program Grant Agreement; two addtional releases of about $2.7 and $4.8 million will follow accomplishment of specific Program measures and policy actions.

19. CLEARANCES		20. ACTION
GC/AFR:TBork AFR/CONT; DFBrown AFR/SWA:DChandler AFR/PD:LHausman AFR/DP:HJohnson PPC/PDPR:DMcClelland DAA/AFR/CWA:LRichards:	M/FM:	☒ APPROVED ☐ DISAPPROVED Mark L. Edelman 8/15/85 AUTHORIZED SIGNATURE DATE TITLE

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All of the conditions established in the Program Grant Agreement for each dollar disbursement are related to the Program purpose: improving the environment for expanded growth and employment in the private sector and reducing the burden of the public sector on the economy while increasing its efficiency.

Concurrent with the signature of the Program Grant Agreement, a Short-Form Program Agreement will be signed with the GRM in the amount of $1.3 million for direct payment by AID of the foreign exchange and local currency costs associated with the establishment and staffing of the Program Coordination Unit, the purchase and installation of computer equipment in the Ministry of Finance and the National Commission for Administrative Reform, and computer-related training.

Conditions Precedent and Covenants

In addition to the standard Conditions Precedent (legal opinion, specimen signatures, and designation of authorized representatives), the following Conditions Precedent and covenants will in substance be included in the Program Grant Agreement.

1. First Disbursement

Prior to the first disbursement under the Grant ($880,000), or to the issuance by AID of documentation pursuant to which disbursement will be made, the Grantee will, except as AID may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID:

a. Evidence that quarters have been established in the Ministry of Finance for the Program Coordination Unit (PCU).

b. Evidence that two qualified Malians have been designated to work collaboratively with one expatriate adviser in the PCU; they will be assigned for a period of up to three years.

c. A statement designating the bank and account number into which disbursement is to be made.

The above conditions will also be considered Conditions Precedent to the Short-Form Program Agreement.

2. Additional Disbursements

A. Tax Reform: The "First Component"

Before the release of the first tranche of funds ($2.6 million) for the first component of the program, the GRM will, except as AID may otherwise agree in writing, furnish in form and substance satisfactory to AID:

1. Evidence of Council of Ministers approval of revised texts, by decree or otherwise, of the Commercial Code and of texts relating to the regulation of prices and the control of external trade.

2. A three-year action plan for conducting tax reform in Mali and a detailed action plan, acceptable to USAID, for the first year of tax reform activity. This one-year plan should include estimations of possible revenue shortfalls and gains likely to be realized as a result of implementation of the plan.

Before the release of the second tranche of disbursements relating to progress on tax reform measures, the GRM will provide evidence of legislative enactment of regulatory texts regarding pricing and external trade as well as the revised Commercial Code. The second tranche is estimated to be $3.5 million.

Before the release of the second and third tranches of funds for the first Program component, USAID and the GRM will jointly review the results of the previous year of tax reform and adjust the funding programmed for the succeeding year as needed. The adjustment process is described in detail in Annex I. In sum, the GRM will:

1. Present written evidence of the estimated revenue loss realized in the previous year due to the implementation of the program and of estimated revenue gains made due to improved tax administration.

2. Present a detailed action plan for the succeeding year of tax reform activity.

3. Demonstrate satisfactory progress in implementation of the preceding year's program.

Dollar disbursement for the third tranche will be approximately $2.2 million.

B. Budget Restructuring: The "Second Component"

Except as AID might otherwise agree in writing, before the release of grant funds for the first tranche ($2.7 million) of the second Program component, the GRM will:

1. Fulfill all conditions precedent for the first tranche of the first component.

2. Computerize the payroll; all centrally-paid government employees have been, and are being, paid through the computerized system.

3. Put the new budget account classification system in operation for receipts as well as expenditures.

4. Demonstrate evidence of having launched the privatization of public enterprises.

5. Develop detailed administrative arrangements governing the voluntary retirement program; the Ministry of Finance, the Ministry of Labor and Civil Service, and USAID will agree as to feasiblity of implementation.

6. Develop detailed arrangements for the functioning of the Feasibility Study Fund and the Credit Guarantee Fund; the Ministry of Finance, BCEAO, and USAID will have agreed as to feasibility of implementation.

7. Develop detailed disbursement procedures for the EPRP financing, satisfactory to AID; the Ministry of Finance and USAID/Mali will also agree on the constitution of various local currency funds needed to implement specific measures associated with the voluntary

retirement program and on budgetary provisions the Grantee will make for the improvement of tax administration.

8. Determine a ceiling, acceptable to AID, for new recruitments into the Civil Service for 1987, which takes into account recruitments by category, the average salary level (expressed in index numbers) of a new recruit, and the value of an index point. AID has tentatively projected a ceiling for 1987 of 1100.

9. Target improvements in the structure of the budget, acceptable to USAID, expressed in terms of budget indicators which will have been mutually determined. USAID has tentatively identified materials/personnel expenditures ratios of 0.327 and 0.37 as acceptable ratios for 1986 and 1987.

It is likely that the first tranche disbursement for budget restructuring will occur in the second quarter of calendar year 1986.

Prior to the release of the second tranche of funds ($4.8 million) for the second Program component (which could be as early as the beginning of calendar year 1987, depending on progress made), the GRM and USAID will jointly evaluate the implementation and impact of measures implemented in the preceding period. They will agree upon any necessary modifications in the component design for the following period. In addition, the GRM will:

1. Present financial records of expenditures involved in implementing specific measures agreed upon in the disbursement of the first tranche (that is, severance pay, pension guarantees, credit guarantees, and feasibility studies).

2. Demonstrate adherence to the 1987 ceiling on new hires into the Civil Service and determine a ceiling, acceptable to USAID, for new recruitments into the Civil Service for 1988. This ceiling will, as in the previous year, take into account recruitments by category, the average salary level (expresssed in index numbers) of a new recruit, and the value of the index point. USAID has tentatively projected ceiling levels for 1988 at 800 new entrants.

3. Demonstrate effective control of expenditures in the preceding year and target improvements in the structure of the budget for the following year. This target should be acceptable to USAID and expressed in terms of specific budget indicators dealing with the ratio between personnel expenditures and non-wage recurrent outlays. USAID has tentatively identified a materials/personnel expenditures ratio of 0.34 as an acceptable target ratio for 1988.

3. Special Covenants

Except as the Parties may otherwise agree in writing, the Grantee covenants that it will, throughout the duration of the Program:

1. Assure the presence of adequate technical expertise in the Department of Internal Revenues and the Customs Service to monitor the results of the proposed tax reform activity.

2. Assure adequate allocation of budgetary resources to the Department of Internal Revenue and Customs Service to permit the realization of the projected tax revenue increases due to improved tax administration.

3. Maintain its policy of not recruiting contractual employees in those categories and otherwise strictly limiting personnel recruitment.

4. Assure that the privatization of public enterprises has been carried out with severance pay, a credit guarantee fund and a feasibility study fund, that is, in a way similar to that proposed for the voluntary early retirement of civil servants.

5. Assure the assignment of the same personnel to the PCU for the duration of the Program as far as possible; AID will agree as to changes which may be necessary.

6. Establish a program for publicizing regulatory or administrative changes enacted with respect to the Commercial Code, price regulation, and tax reform. In addition to normal mass communication channels, direct communication channels with interested groups should be encouraged and used.

7. Establish procedures (in addition to automation of the payroll) to ensure that civil servants leaving the Civil Service through the Voluntary Early Departure Program are not rehired into Government service.

8. Allocate to the PCU adequate powers for the monitoring and evaluation of the program. "Evaluation" will include: (1) evaluation of progress towards attainment of program objectives; (2) identification and assessment of problem areas or constraints which may inhibit such progress; and (3) to the extent feasible, an evaluation of the overall impact of the program at its conclusion.

EXECUTIVE SUMMARY

A. The Request

The Government of the Republic of Mali (GRM) has requested assistance in implementing a program of policy reform aimed at improving the environment for growth and employment in the private sector and reducing the burden of the public sector on the Malian economy. USAID/Mali is proposing a three-year (FY 1985 - 1988) $18 million assistance package to the GRM from Economic Support Funds (ESF) for the Economic Policy Reform Program (EPRP).

B. The Economic Policy Context

Following independence, the Government of the Republic of Mali (GRM) implemented a state-led development strategy to achieve its objectives of rapid industrialization and modernization. The policy mechanisms chosen for achieving these objectives were the creation of state enterprises and the rapid expansion of the central government apparatus to administer the economy and provide expanded services in the education, agriculture and health sectors. Employment in the state sector was expanded far beyond the capacity of the government to finance it. The economy was controlled through a wide array of cumbersome and constraining state regulations covering virtually all sectors.

To finance the rapidly growing public sector, taxes literally confiscatory in nature were levied on business and commercial agricultural production; low food crop prices (to serve as wage supplements to low-paid civil servants) were imposed on rural producers.

This combination of policies resulted, however, not in dynamic growth and development, but in costly failures. First, management of the public enterprises proved beyond the capabilities of the limited pool of trained personnel. Thus, rather than generating the anticipated surpluses, the enterprises incurred huge losses. Rather than drawing on the public budget to meet these losses, the Government began borrowing heavily from the domestic banking system; this had two effects. It resulted in heavy burdens of bad debt in the state-owned banks and it crowded out private sector firms from access to bank credit.

Second, the rapidly expanding scholarship fund for training future civil servants combined with the rapidly expanding wage bill for the civil service proved to be a major drain on the public revenues.

Third, having underestimated the adverse impact on production of low producer prices, the government was faced with declining per capita food production, stagnation in agricultural exports and an increasing need for food imports. As a result, Mali began experiencing a growing shortage of foreign exchange and was forced to adopt a policy of strict import rationing.

Fourth, because of the government's emphasis on state enterprises, individual entrepreneurs had little incentive to develop the private sector. Taxation and regulatory policies made economic life even more difficult.

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In response to this situation and under pressure from the donor community, the GRM articulated a program of economic policy reform in 1981. Under a series of Stand-By Agreements with the IMF, the GRM instituted a number of important reforms which have resulted in: (1) a reduction in the budget deficit from 9.7 billion francs CFA (FCFA) in 1981 to about 3 billion FCFA in 1984; (2) a reduction in total government arrears from 21.2 billion FCFA in 1981 to 11.5 billion FCFA in 1983; (3) a 1500-person reduction in the workforce in public enterprises by 1984; (4) the introduction of restrictions in public sector hiring; (5) a three year freeze on public sector salaries; (6) the elimination of public marketing monopolies for agricultural inputs; and (7) the development of a major program for reform of public enterprise including liquidation of some, privatization of others, and restructuring of still others.

The process of redefining the roles appropriate to the public sector in Mali is clearly underway. The government is becoming increasingly aware that basic policy and institutional reforms are necessary to encourage the private sector to expand. There is a significantly increased willingness at top levels within the Government to allocate to the private sector and the market place a much larger role in economic decision-making. It is also fully aware of the political risks raised by changes from the status quo.

Nevertheless, proposals for reforms are already on the table and are receiving serious attention at all levels. Among the most important changes affecting private sector growth are those concerning: regulations controlling internal commerce, external trade, and pricing; laws governing the establishment and operation of private enterprises; and tax reform.

At the same time, the public sector must improve its performance in areas where its presence is to continue. As discussed above, a number of measures have been implemented. However, additional steps are necessary. The capacity of the Malian administration to function is threatened with a growing paralysis resulting from an alarming decline in operating expenditures for equipment and materials with which to work. The Malian national budget allocations to non-wage recurrent costs and investments are extremely low. Thus, a major requirement for improving public sector performance is to implement a sustainable increase in expenditures on non-wage recurrent cost items while reducing those on personnel. Reductions in the rate of growth in the Civil Service combined with gradual restructuring of the budget toward non-wage recurrent expenditures are required.

The program to be financed under the EPRP will address both sets of needs.

C. Program Assistance Description

The goal of the proposed Economic Policy Reform Program for Mali is to support long-term sustainable economic growth. The purpose of the EPRP is to support the GRM in its efforts to: (a) provide an environment conducive to expanded economic growth and employment in the private sector; and (b) to reduce the burden of the public sector on the economy while increasing its efficiency.

The EPRP will assist the GRM in accomplishing these objectives, through the provision of $16.7 million in dollar disbursements and of $1.3 million in goods, services, and technical assistance necessary for the implementation of the reforms.

It is proposed to provide these resources to support the following GRM reform agenda:

- Reduction in regulatory controls on commerce and industrial activity in Mali;

- Tax reform directed towards establishing a more equitable tax system providing incentives for private sector growth and the creation of employment opportunities, accompanied by measures to improve tax administration;

- A reallocation of public budgetary resources, increasing the amount directed to non-wage operating costs and investment sufficiently to ensure effective accomplishment of necessary tasks, by decreasing the amount required to meet the public payroll; and

- The privatization and/or closure of selected public enterprises, accompanied by policy and institutional reform, leading to greater efficiency of public enterprises as well as greater accountability.

1. Preconditions for Program Success

Two regulatory and legislative changes that could significantly improve the environment for private sector expansion have already been prepared and are currently under consideration by the GRM.

- The new Commercial Code will replace the existing code which contains regulations from a variety of sources, some predating independence. It will thus compile in one document all regulations concerning commerce. It reflects a more realistic and modern approach to doing business. It better defines conditions involving conflict of interest; it removes restrictions on employees entering into business similar to their employers; and it greatly reduces the regulatory and licensing constraints to entering into business.

- The new pricing legislation will supercede current legislation under which all prices for all traded goods in Mali are officially established by decree. Under the new legislation, the concept of market-determined prices is emphasized. Although the prices of a few basic commodities will continue to be fixed, the prices of 80 percent of commodities traded will be determined by supply and demand.

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2. Program Components

a. The First Component: Tax Reform

The specific objectives of the reform are: a gradual movement toward lower tax rates; a better distribution of the tax burden among taxpayers; and strengthened administration of revenue and customs services, the Treasury, and the Department of Economic Affairs, to facilitate improved assessment and collection of taxes. In the short-term, a reduction in tax rates will translate into revenue shortfalls; these will be offset, on a declining basis, by Program financing. The implementation of certain administrative changes should more than compensate for the remaining losses. In the medium-to long-term, moreover, the strengthening of tax administration, the reduction of incentives to evade and commit fraud, and the expansion of the tax base -- which should result from the reform measures -- will provide the basis for sustained, or even increased, revenue yields.

The specific tax measures targeted for reform include the following:

- reduction of the payroll tax from 15 percent to 7.5 percent in 1986;

- reduction of the one percent tax on gross revenues to a rate of 0.75 percent starting in 1987;

- utilization of the taxe sur taxe approach to deductions in calculating the tax on business and services (the IAS) rather than continuing the base sur base method currently in use;

- reduction of the marginal rates on business incomes starting in 1987 from 50 percent to 45 percent for firms and from 30 to 25 percent for individuals; and

- the reduction of customs tariffs on the imports of certain intermediate goods to reduce the penalty placed on local production by comparison with imports, and an upward revision of standard values applied in the assessment of customs duties.

For the long-term, the possibilities for modifying the tax structure, first, by introducing a single tax on revenue instead of the multiple tax system presently used and, second, by widening the tax brackets and reducing the rates applied in the levy of the general income tax will be examined.

The principal measures which will be put in place to strengthen the tax administration are:

- Gradual automation of the tax returns managed by the Department of Internal Revenue, both at the level of assessment and of collection;

- The strengthening of the National Investigations Unit and of the Collections Service; and

- The extension of the Customs Service computer system.

b. The Second Component: Budget Restructuring

The weight of the wage bill in the public budget is currently so heavy that productivity of civil servants is thought to be seriously reduced by the lack of materials with which to work. Increasing the efficiency of public service delivery will require an increase in the portion of the national budget allocated to non-salary expenditures. There are two ways the GRM could accomplish this: first, raise revenues and allocate all additional revenues to non-wage recurrent expenditures while holding the personnel expenditures steady; or reduce personnel expenditures and reallocate the savings to non-salary costs. Given the tax reform perspective outlined above, it appears that, in the short to medium term, increases in non-salary expenditures can be achieved only if the growth of the civil service is contained. By imposing restrictions on hiring of new personnel, the GRM can ensure that the structural imbalance in the budget is reduced. However, it is also thought that actively encouraging a number of civil servants to leave and to establish themselves in private sector businesses is a promising approach.

(1). The GRM Voluntary Early Retirement Program

Thus, the GRM has decided to implement an incentive program aimed at encouraging the voluntary early retirement of civil servants interested in leaving the public sector. Given the lack of experience in this area, the GRM has determined that a realistic initial objective would be the voluntary retirement of about 600 civil servants over a two year period. The financial incentives the GRM plans to make available will provide these volunteers with some of the means and support necessary to enable them to take up or generate employment in the private sector. The program concept involves: (1) provision of severance pay; (2) pension guarantees for civil servants (or contributions reimbursal for those wishing to retire before completing 14 years of service); (3) a credit guarantee program to reduce the risk of lending institutions in providing credit to program participants wishing to start up businesses in the private sector after retirement; and (4) a feasibility study fund to assist the participants in having professional feasibility studies carried out for their projects.

Provided that the costs of the program itself are kept under control, at least 600 civil servants leave over a two year period, and new recruits are strictly budgeted on an annual basis, the budgetary savings generated by the program will be sufficient to affect positively the structure of the government budget. A 12 percent increase in materials expenditure should be possible by 1990, with even larger increases in succeeding years.

(2). Privatization of Public Enterprises

To further reduce the flow of government red ink stemming from unproductive employment of personnel in the public sector, the GRM also plans to extend some of the concepts involved in Civil Service personnel reductions to the process of privatization of public enterprises. A new project of public enterprise reform and rehabilitation is scheduled to begin with World Bank funding within the next year.

(3). EPRP Support for Budget Restructuring

The cost of implementing the voluntary departure program for civil servants and the state enterprise personnel reduction program will temporarily place a very heavy burden on the public budget. More specifically, these policy reforms, if not offset by external financing, would result in deep cuts in expenditures on materials and equipment. The immediate impact of such expenditure cuts would be a further sharp reduction in the quality of public sector service delivery.

To encourage the GRM to undertake these actions in spite of the short-term budgetary costs, USAID/Mali plans to provide dollar resources to the GRM in 1986 and 1987, the years of the greatest shortfall. The amount of dollar support contemplated will be sufficient to achieve a slight increase in materials expenditure over the recent trends. The GRM projects sufficient savings from its personnel reduction effort to allow for a continuation of this increased level of materials expenditures. To further address the productivity problem, the EPRP will provide goods and services (principally in the area of computerization) to the GRM to permit the ministries and departments carrying out policy reform-related measures to augment their capacity to provide efficient and effective services.

D. Conditionality and Policy Reform

For each of the policy and institutional changes outlined above, specific benchmarks have been clearly established which will be used to track progress toward achievement of the reform objectives agreed upon. Funds will be disbursed on the basis of satisfactory progress by the GRM in implementing those reforms. Disbursements for tax reforms will be conditioned upon:

. Government approval of the revised Comercial Code, revised legislation on the regulation of prices and changes in the regulations controlling external trade; and

. Annual action plans for specific tax reforms and for administrative improvements in internal revenues and customs.

. Satisfactory progress in implementation of preceding year's reforms.

Disbursements for budget restructuring will be conditioned upon:

. Fulfilling conditions precedent for tax reform;

. Computerization of the payroll;

- Launching of program for privatization of public enterprises;

- Use of a new budget account classification system;

- Development of feasible plans and administrative systems for managing a voluntary early retirement program;

- Agreed-upon annual recruitment ceilings for new entrants into the civil service (tentatively set at 1100 in 1987 and 800 in 1988); and

- Achievement of indicative targets for budgetary allocation, specifically dealing with the ratio between personnel expenditures and non-wage recurrent outlays; tentative target ratios are 0.33 for 1986, 0.37 for 1987; and 0.34 for 1988.

E. Program Impact

Implementation of the policy reforms are expected to have the following impacts:

1. Regulatory Reforms

- The revised Commercial Code will make it easier to establish legitimate businesses in Mali.

- The revised external trade and pricing legislation will remove distortions in Malian prices vis-a-vis those in neighboring countries. Allowing prices to be market-determined will increase open competition among traders and will stimulate entry into this sector.

2. Tax Reforms:

- Revised tax rates should provide greater incentive for new investment in the private sector; reduction of the payroll tax rate will encourage use of labor relative to other factors and reduction of business incomes tax rates should foster reinvestment in profitable enterprises. Revenue shortfalls of nearly $14 million over the three-year period are anticipated.

- Implementation of administrative measures and the revision of administered prices on certain classes of imports will result in projected revenue gains of approximately $20 million largely realized toward the end of the three-year period. Increased computerization of tax records, installation of customs equipment, institution of prepayment mechanisms for business income taxes, and stepped-up enforcement procedures are among the measures which will generate this gain. Upward revision of the administratively-determined values on which customs duties are levied will, however, contribute most of the additional revenue in the third year of the program.

- The net impact of EPRP support, rate reduction, and administrative changes should be a positive contribution to GRM revenues of approximately $14 million over the three years.

3. Budgetary Restructuring:

- EPRP-negotiated reductions in the ceiling on new hires into the civil service (from the current level of about 1400 to 1100 in 1987 to 800 in 1988) will result in substantial budgetary savings to the GRM. This level of reductions will generate a stream of benefits over a period which corresponds to the average tenure of a civil servant. Conservatively assuming this to be at least 15 years, the net present value of budgetary savings resulting from this policy reform is approximately $54 million if the lower level of intake is sustained in the following years.

- The voluntary early retirement of an estimated 600 civil servants in 1986 and 1987 will engender further budgetary savings -- as well as providing an impetus to the development of private sector enterprises. The net present value of the budgetary savings alone are estimated at $8.5 million.

- EPRP financial support to the GRM will offset expenditures associated with the voluntary early retirement program and permit an increase of about $1.5 million in the GRM's nonwage recurrent expenditures in 1986 and 1987.

- The ratio of non-wage recurrent expenditures to personnel expenditures will be maintained in the range of 0.33 to 0.34 throughout the period 1988 through 2000 instead of declining from 0.30 to 0.20 over this period.

- Non-wage recurrent expenditures can be increased by increasing amounts over the period 1986 - 2000 as personnel expenditures are contained. The baseline level for non-wage recurrent outlays is projected to rise from $22 million in 1985 to about $34 million in 1989 without policy reform measures. With the implementation of these measures, the increased availability of resources for non-wage operating expenditures is estimated to rise above baseline levels by: $2.9 million in 1988, $ 4.1 million in 1989, and up to $30 million in the year 2000. In other words, with the policy reform measures associated with the EPRP, outlays are projected to be 12 percent higher in 1989 and nearly 50 percent higher than the baseline value in the year 2000.

- The installation of computer equipment in the Bureau of the Budget and the Payroll Office will directly result in increased productivity of personnel working in these offices.

F. Summary Financial Plan ($000)

The following is a breakdown of EPRP financing by expenditure category:

Tax Reform	$ 8,315
Budget Restructuring	8,365
Commodity Procurement	490
Technical Assistance	770
Training	60
TOTAL	$ 18,000

G. Implementation

The responsibility for implementation of the policy reform and related activities will rest with the GRM. The principal executing agency will be the Ministry of Finance. The Payroll Office, the Bureau of the Budget, the Treasury, the Department of Internal Revenue, the Department of Customs and the Bureau of Economic Affairs, are all under the Ministry and will assume responsibility for implementing specific activities in support of the policy reform effort. USAID will provide budgetary support to enable the GRM to implement its reform plans. Technical assistance will be limited to coordination and monitoring and to the procurement, installation of computer equipment and the training of Ministry staff in its use.

H. Recommendation

USAID/Mali recommends approval by the Assistant Administrator of the GRM's request for program assistance in the form of a grant of $18 million from the EPRP fund. The grant will consist of $16.7 million in financial support and $1.3 million for commodities, services, and technical assistance, including training.

II. PROGRAM SETTING

A. Macroeconomic Policy Evolution

1. The Colonial Inheritance

An analysis of the relatively brief colonial period in Mali and the subsequent 25 years of independence leads to an important conclusion: many elements of the current policy framework were established during the colonial period and have been maintained throughout the post-independence years. The new policy choices that were made following independence in most cases served to strengthen the role of the state vis a vis the population as a whole.

During World War II, for example, economic intervention of the colonial government increased in response to pressures brought on by war conditions; regulation of prices, the establishment of import-export quotas for licensed merchants (who were almost exclusively French), and the controls on marketing of basic commodities were initiated. These measures remain in place today. During the post-war period, the colonial administration launched other initiatives which have had a permanent effect on the evolution of the public and private sectors. Perhaps most important were the significant increases in economic and social investments by the colonial government involving expansion of the transportation networks, development of the state-run rice- producing enterprise in the Office du Niger, and a sharp expansion of public schooling and health facilities. Management of the expanding public sector provided the main source of employment for a small but growing number of western-educated Africans.

A general bias on the part of educated Malians in favor of a strong public sector was thus created even prior to independence. This public sector bias was reinforced by the tendency of young high school and university students to embrace variations of socialist ideology. In contrast, the traditional merchants and agricultural producers had little western education, little interest in the affairs of the public sector, and a very limited role in the administration or management of the economic sectors dominated by the public service.

On the eve of independence in 1960, then, Mali had a legacy of colonial intervention which strongly influenced its policy choices in the post-independence period. Those which were perhaps the most important in terms of economic policy and determining the appropriate role for the state were:

- a highly regulated economy, with a highly centralized administrative system;
- virtually no modern industrial sector;
- a limited traditional private sector;
- a limited number of university-educated Malians concentrated in the civil service

2. Mali's Socialist Experiment (1960-1968)

The stage was set for what was to become one of the more serious attempts by an African state to implement a state-led development strategy. The government quickly embarked on an industrialization program through the creation of state enterprises. Between 1960 and 1969, 16 public industrial enterprises were established. The Civil Service was rapidly Africanized and expanded to meet the management demands of the industralization objective, the perceived need for increased social services, and to extend administrative authority over the countryside. Thus, between 1961 and 1964 the number of public employees increased at an annual rate of nearly 19 percent, rising from 10,534 to 17,582 in just four years. While the rate of growth of public employment began to decrease in the mid- to late-1960s, the actual number of people recruited into the government services rose faster.

To generate the financial resources necessary to support this rapid expansion of public sector activity, the Government of Mali adopted a set of policy measures which sought to concentrate the nation's resources in building profitable state industrial and commercial enterprises.

The first step involved an attempt to capture the foreign trade profits being earned by largely foreign-owned firms and, at the same time, to ensure a steady supply of low-priced staple commodities to the population. To this end, the government created the state import-export company, SOMIEX, and granted it a monopoly on a wide range of commodities. Second, the state nationalized privately-owned companies of any size in an efffort to capture their profits. Third, the state took over a large share of Mali's banking activities. Unwilling to accept the monetary regulations of the West African Monetary Union, Mali withdrew and delinked its currency from the French franc in 1962.* Fourth, the government increased direct and indirect taxes on the rural sector. The major rationale for this action was the requirement to feed the urban populations at low prices in order to hold down industrial wages. Rural taxation was also intended to impose state control on the marketing of export crops and thus to generate the foreign exchange needed for capital imports.

Given the very limited number of Malians educated at the post-secondary level at the time of independence, the government sought to address the shortage of human resources by rapidly expanding training facilities and scholarships for secondary and post-secondary students. Virtually all graduates were guaranteed jobs in Government when they left school.

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* Faced with growing fiscal crisis, in late 1967, the government signed an agreement with France restoring the convertibility of the Malian franc based on the acceptance of a 50 percent devaluation and measures to reinstate monetary discipline.

This combination of policies resulted, however, not in dynamic growth and development, but in costly failures. First, management of the public enterprises proved beyond the capabilities of the limited pool of trained personnel. Thus, rather than generating the anticipated surpluses, the enterprises incurred huge losses. Rather than drawing on the public budget to meet these losses, the Government began borrowing heavily from the domestic banking system; this had two effects. It resulted in heavy burdens of bad debt in the state-owned banks and it crowded out private sector firms from access to bank credit.

Second, the rapidly expanding scholarship fund for training future civil servants combined with the rapidly expanding wage bill for the civil service proved to be a major drain on the public revenues.

Third, having underestimated the adverse impact on production of low producer prices, the government was faced with declining per capita food production, stagnation in agricultural exports and an increasing need for food imports. As a result, Mali began experiencing a growing shortage of foreign exchange and was forced to adopt a policy of strict import rationing.

Fourth, because of the government's protection of state monopolies and its ideological hostility toward capitalism, African merchants had little incentive to develop the private sector. The situation deteriorated so rapidly that in 1968 these merchants demonstrated against the Government's socialist policies and demanded liberalization of the economy. Tensions between the Keita administration and the African private sector persisted until the Government was overthrown in 1968.

3. Policies and Performance under Military Rule

Although the new military government under General Moussa Traore began questioning the effectiveness of the socialist policies of the 1960s, it did not establish a clear and consistent framework for policy transition. Even the few attempts at pragmatic reform were overtaken by a series of unforeseeable shocks to the economy, the most important of which were the prolonged drought which began in the early 1970's and the sharp increase in petroleum prices in 1973 and 1978.

Thus, despite promises to liberalize the economy, the modern commercial sector continued to be dominated by the state monopolies for the conduct of import-export trade and the marketing of cereal and other cash crops. Indeed, the role of the public sector in the economy continued to expand as: (1) eight new state and parastatal enterprises were created and others expanded resulting in an increase in public enterprise employment of 3,000; (2) more than 20 parastatal rural development agencies (ODR's) were created or expanded, raising employment in this sector to more than 20,000; (3) public services were expanded resulting in an increase in the number of civil servants to 45,700; (4) direct and indirect taxes were again increased to finance this expansion; and (5) the government continued to hold down food prices in order to minimize the cost of public service and state enterprise expansion.

On the positive side, the Government did pass legislation which made it easier for new private firms to be created. Further, a liberal Investment Code passed in 1969 gave considerable tax advantages to new firms meeting certain conditions. This stimulated the establishment of a number of relatively large-scale (by Malian standards), privately-owned firms which provided an estimated 4,500 new jobs between 1969 and 1974, mostly in manufacturing. Indeed, this marked the emergency of an embryonic modern Malian private business class.

Nevertheless, the "traditional" Malian commercial trading sector continued to conduct business as usual, that is, by avoiding taxes and government regulations as much as possible. Despite the nod toward liberalization, continued government regulations, favored treatment of state enterprises, and high tax rates for those who did not qualify for Investment Code exemptions, did not provide a very propitious climate for the development of the private sector.

4. Impact of the Policies Pursued

By the late 1970's, the Malian government was facing an impasse as economic imbalances had reached critical proportions. The situation is vividly described in the 1985 CDSS: "the central government deficit amounted to one-third of revenues; losses of public enterprise had reached about 20 percent of sales; the balance of payments deficit on current account (excluding official transfers) represented 19 percent of GDP, and the public payroll was often not met on time.

Further, the Malian economy had lost most of its room for maneuver. First, in 1977 a new monetary agreement was signed with France setting limits to Mali's cumulative negative position in the Operations Account (the clearing account with the French Central Bank) beyond which convertibility of the Malian franc could be suspended. These limits were rapidly approaching. Second, the Malian Government had exhausted all avenues short of radical reform for financing the budget deficit and reducing the losses of public enterprises. Public financial needs were increasing, the tax base was stagnating, and the limits of fiscal pressure and of expedients for financing the deficit had been reached. The need for economic policy reform became pressing."

The need for reform was apparent in the private sector as well as the public. Private sector entrepreneurs, for example, could cite a history of broken promises from the government and their extensive experience in pursuing their business interests "underground". A complex of formal and informal institutional arrangements (involving regulations, licensing procedures, "service charges", and exemptions from them) had evolved. Public employees had a stake in applying the laws and regulations while many private sector entrepreneurs had a real economic interest in circumventing them. Bargaining for favored status or bribery to avoid a sanction were commonplace occurrences.

5. Policy Transition in the 1980s

By the early 1980's, the negative economic impact of these policies was evident and a number of steps were taken by the Government to modify policies. The broad lines of financial and economic policy reform have been clearly drawn over the past three or four years and are generally accepted. The Government of the Republic of Mali (GRM) has demonstrated in concrete terms its capacity to undertake serious economic policy reform measures, several involving considerable political risk, to deal with Mali's economic ills. Some of the most wide-reaching efforts can be cited as examples of the commitment of the Government of the process of reform and revitalization of the Malian economy. These examples also illustrate the important role played by bilateral and multilateral donors in supporting and facilitating the process.

In 1982, the GRM signed a Stand-By Agreement with the International Monetary Fund (IMF). The SDR 30.5 million were drawn on schedule in four tranches as Mali satisfactorily met the IMF's performance criteria. In December, 1983, the IMF approved a second Stand-By Program for SDR 40.5 million over an 18-month period. The IMF's mid-term evaluation was successfully completed in September, 1984, and the last tranche has just been drawn down. Among the measures or achievements were the following:

- A reduction in the consolidated government deficit from 9.7 billion CFA francs (FCFA) in 1981 to 5.8 billion FCFA in 1983 and continued down to about 3 billion FCFA in 1984.*

- A reduction in total government arrears from 21.2 billion FCFA as of December 1981 to 11.5 billion FCFA in May, 1983. External arrears accounted for 4 billion FCFA of the 9.7 billion FCFA total reduction.

- Reduction in the workforce of public enterprises of about 1,500 in January, 1984, representing about ten percent of total employment in public enterprises.

- The introduction of restrictions in public sector hiring. For the first time, in December, 1983, about 1,800 of the 3,900 applicants for employment were turned down on the basis of competitive examinations. In December, 1984, even stiffer criteria were applied. Just over 1400 candidates were accepted out of over 5000 applicants.

- A three-year freeze on public sector salaries was maintained (1982-84).

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* Approximately 450 FCFA = $ 1. U.S. as of July 1985. This conversion rate has been used throughout this PAAD.

The marketing monopolies for agricultural inputs and for food crops have been gradually disbanded since the early 1980's and private sector traders have been encouraged to play a greater role in these markets. A multi-donor project for restructuring the cereals market, commonly known by its acronym -- PRMC, was instrumental in aiding the Government to liberalize the foodgrain markets. Donor contributions of food aid provided the measure of food security need to ease the transition from low producer and consumer prices to a system of market-determined prices. Cotton marketing arrangements were overhauled and SOMIEX, the former state monopoly import- export agency, was denied the monopoly rent it had been receiving. Its monopoly was curtailed to seven basic commodities and its retail operations drastically slashed.

In addition, the Government of Mali set the stage for reform of public sector enterprises and the rural development organizations. Two first-phase diagnostic reports were prepared under World Bank financing, and in both cases, a second implementation phase is getting underway.

The roles of the rural development organizations have begun to be modified; there is a perceived need to increase the effectiveness of the services provided while decreasing the costs of doing so. The dominance of the public sector in input supply and credit has continued, but the increasing participation of private sector organizations in providing these services has been encouraged. An additional privately-owned bank has been established in Mali and the existing ones have expanded their operations. Public enterprises have been targeted for administrative reform if they are to remain in state ownership, for "privatization" where that is appropriate, and closure has been recommended for the rest.

The process of defining the roles appropriate to the public and private sectors is, indeed, fundamental to the process of policy reform in Mali. There is a growing willingness to allocate to the private sector an increased role where the ownership and management of the public sector have been shown to be ineffective. Simply disbanding public monopolies and selling public corporation assets to private companies are among the ways to stimulate greater private sector participation in the economy.

However, there are a number of other reforms which will be needed to encourage the private sector to expand its activities into new areas. Among those which we find to be the most important ones on the Government's agenda are: changes in regulations controlling internal commerce, external trade, and pricing; modification of the laws governing establishment and operation of private enterprises in both commerce and industry; and tax reform. The present system discourages entrepreneurial dynamism and diminishes the sector's capacity to create the employment necessary to absorb a growing number of unemployed. Past experience suggests that changes in these behavioral patterns will occur only after changes in institutional arrangements have been achieved and are perceived to be durable. In the beginning, however, progress will be measured.

Further, it is recognized that the public sector must improve its management and strengthen its performance in those areas where its presence is required for reasons of public interest, national security, or social equity. To accomplish this objective, a number of measures already undertaken (reductions in new hiring, improved budgetary control of expenditures, etc.) will need to be maintained, but, in addition, some means must be sought to bring about a sustainable change in the Government budget. The Malian national budget's allocations to non-wage recurrent costs and investments have remained practically unchanged since 1982. Although such costs were at an extremely low level in international terms, the ratio between non-salary expenditures and the wage bill has continued to worsen. The capacity of the Malian administration to function is threatened by a growing paralysis resulting from an alarming decline in operating expenses, equipment, and materials with which to work. Reductions in the size of the Civil Service combined with a gradual restructuring of the budget toward materials expenditures and investments in working capital are required.

A legacy from the past which has begun to dealt with in this regard is that of automatic employment in the public service for post-secondary school graduates. The Government began to take the first critical steps in reversing this policy in 1982. In 1983, for the first time, recruitment from the ranks of graduates was less than 100 percent. In 1984, even more stringent recruitment standards were employed. While the policy signal has clearly been received by the student population, the pressure to provide employment will nevertheless continue to grow as more students are graduating from Malian secondary and higher educational institutions than ever before. Thus, efforts to reduce public employment will need to be appropriately sequenced to ensure a reasonable "fit" with the expansion of the private sector.

The program described in the following section will address both sets of needs.

III. PROGRAM DESCRIPTION

A. Program Rationale

The Government of the Republic of Mali (GRM) is now addressing the task of proposing and adopting specific measures by which its reform objectives will be translated into reality. Resources -- both financial and human -- have to be mobilized to implement the measures.

Through its Title II, Section 206 program, USAID/Mali has been able to join with other donors in supporting the GRM agricultural policy reform effots to date. Perhaps more importantly, however, the dialogue begun on key issues of cereals pricing, agricultural commodity trade, and on public organizational reform gave the Mission the basis for pursuing a broader policy dialogue with the GRM.

The Administration's initiative in funding policy reform in Africa came at a most opportune time. The Economic Policy Reform program (EPRP) provides a new vehicle for AID to assist the GRM in addressing key problems in its administrative and financial systems without incurring the design and management costs which would be associated with project assistance. By extending EPRP grant support only to those kinds of policy reform-related actions which would not normally be amenable to bilateral project financing and which will be relatively easy to track and evaluate in terms of their contributions to overall achievement of GRM policy reform objectives, USAID/Mali hopes to contain its own costs of management and, at the same time, to strengthen the impact of its overall assistance to Mali.

In developing the Mali Economic Policy Reform Program, USAID/Mali asked the GRM to assume substantial responsibility for defining realistic policy reform benchmarks which could be achieved within specified timeframes. The capabilities demonstrated by the GRM in negotiating and meeting the conditions of the IMF Stand-By Agreements also contributed to a USAID/Mali assessment that a sector grant approach -- with policy reform performance conditions established for Grant disbursement and evaluation, but with implementation activities largely launched and monitored by the GRM itself -- would work. The GRM response was so positive in this regard that considerable progress was also made in the EPRP design process with the identification and programming of the specific activities which the GRM will undertake to fulfill the benchmarks.

It should be noted that the GRM has access to support (both financial and technical assistance) from other donors in many of the areas to which EPRP support will be directed.* It is USAID/Mali's view, therefore, that the GRM is likely to need specialized technical assistance in only limited ways and on relatively short-term bases. The most significant lack is technical expertise in computers so USAID assistance will focus particularly on this area. Otherwise, however, there are sufficient numbers of skilled administrators in the Government to orient, guide, and facilitate implementation of the policy reform-related actions to be supported by the EPRP program.

B. Program Objectives

The goal of this proposed Mali Economic Policy Reform Program is to promote long-term sustainable economic growth in Mali. The EPRP purpose is twofold: first, to support the GRM in its efforts to provide an environment conducive to increased growth and employment generation in the private sector and, second, to reduce the burden of the public sector on the eocnomy while increasing its efficiency. To accomplish this purpose, it is proposed to provide resources to permit the GRM to undertake:

- Tax reform towards establishing a more equitable tax system providing incentives for private sector growth and the creation of employment opportunities, accompanied by measures to improve tax administration;

- A reduction in administrative controls on commerce and industrial activity in Mali;

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* See Section V.F below for specific discussion of other donor contributions relating to reforms.

- A reallocation of public budgetary resources; increasing the amount directed to providing operating costs and investment sufficiently to ensure effective accomplishment of necessary tasks, by decreasing the proportion required to meet the public payroll. Such a reallocation is feasible if, on the one hand, measures are implemented to improve payroll and budget management and, on the other, steps are taken to reduce public employment. This combination of initiatives can free budgetary resources to increase the productivity of government personnel in public service delivery; and

- The privatization, rehabilitation, and/or closure of selected public enterprises, accompanied by policy and institutional reform leading to greater efficiency of public enterprises as well as greater accountability.

While USAID/Mali's development assistance program has, to date, been geared almost exclusively to the development of the rural sector, policy reform has consistently been an important element of the Country Development Strategy. USAID/Mali recognizes that the goal of sustained, broadly-based economic growth often requires (as is emphasized in the AID Policy Paper on Pricing, Subsidies, and Related Policies) "complementary reforms, such as the promotion of competition in the private sector..." and the reduction in the the public sector dominance in the economy, and complementary public sector investments "...which encourage and facilitate growth in the private sector."

C. Program Context: Preconditions for Program Success

Thus, while many of the actions which will be supported by the EPRP will be carried out by the Government of Mali and will involve civil servants in both planning and execution, it is in the Malian private sector where the conditions for Program success are found. Several regulatory and legislative changes which will affect the private sector have already been prepared for top GRM consideration: a revised Commercial Code, revisions in the legislation governing prices, and the tax reforms discussed in Section III below. If enacted, they would have a profound and positive effect on the climate for private sector expansion. A change is also proposed in the Investment Code, although in the view of USAID/Mali, this will be of less importance than the other measures. Key elements of the changes proposed for the Commercial Code and the price legislation are presented below.

1. The New Commercial Code

The revised Commercial Code is a comprehensive work which includes texts not only on commerce, but also on bankruptcy, services, commercial paper, corporations, and commercial contracts. The Code is the output of a Commission comprised of public and private sector representatives. After several years of work and 92 meetings, the new Code was produced -- reportedly the first of its kind in West Africa. Essentially completed in May, 1983, it has not yet been officially approved. Once it is approved by the Council, it must be approved by the National Assembly to become law. Given the extensive and far-reaching nature of the Commercial Code, delays in GRM approval of the document are not surprising.

The "old" Code (which is still in force) contains laws from a variety of sources -- historical and traditional Malian texts, some modern Malian laws, and French laws in existence since Mali's independence. The need to update and reform this antiquated legislation is evident. Even though France repealed its bankruptcy code in 1967, for example, this same code is still part of the Commercial Code of Mali. Reform is also needed to reflect modern commercial practices, particularly relating to the exchange of services and the involvement of foreign enterprise.

A brief overview of the "new" Code and a more intensive look at the regulations concerning the establishment of private enterprises leads to several observations:

- It reflects a more realistic and modern approach to doing business in Mali than does the old Code.

- All regulations concerning all aspects of commerce are now compiled in a single document and the new Code condenses several categories of the old Code into more meaningful groups.

- It defines conditions in which conflict of interest arises. The old Code had no restrictions preventing civil servants with regulatory duties from engaging in commerce in related areas.

- The new Code drops a restriction present in the old Code which prohibits former employees from engaging in similar occupations. This should have the effect of encouraging competition.

- The establishment procedures are changed: a Commercial Register kept by the courts is proposed to replace a mandatory agrement procedure requiring final approval by the Minister of Finance; only three categories of commercial businesses must still undergo agrement.

2. Revisions in the Price Legislation

At present, all prices for all traded goods in Mali are officially established by decree. When a trader applies for a license to trade (the process of agrement), he/she must also state the products which will be traded. The prices which that trader can charge for products are also established on the basis of projected costs of operation, wholesale prices, and profit submitted by the trader. For a few basic commodities, such as sugar, flour, tea, matches, and gasoline, prices are fixed once a year and traders are not permitted to set alternative levels. In fact, however, with the exception of a few goods (the staples mentioned above), there are many illegal traders and a wide variety of prices. The GRM has neither the resources, nor the interest, in maintaining strict control on most prices and competition is more or less a fact of life.

With the signing of the Cereals Market Restructuring Project (PRMC) in 1981, the GRM agreed to officially liberalize the prices of staple grains (with the exception of rice). Since 1982, virtually all locally-produced sorghum, millet, and maize have been traded on the open market for market- determined prices. This year, paddy will join the list of liberalized grain prices. While this freeing up of prices has been underwritten by the donors in the

PRMC, the GRM has gained some experience playing a less interventionist role in the market and, overall, it has been positive.

Ministry of Finance analysts thus began drafting legislation more than two years ago to reduce the role of the GRM in price regulation. This legislation has now been widely reviewed and appears to be ready for ministerial-level consideration. Essentially, this legislation proposes to introduce officially the concept of market-determined prices by grouping commodities into three categories:

. those for which the price is fixed (sugar, tea, etc.);

. those for which the price is still subject to approval; and

. those for which the price will be determined by supply and demand.

The Department of Economic Affairs in the Ministry of Finance estimates that 80 percent of all commodities traded in Mali will fall into the last category. While the importance of these commodities in the overall volume of trade cannot be determined on the basis of available information, the official introduction of the market-price concept into the laws of Mali represents a step toward a less distorting, more private sector growth-oriented economy.

For the second category of commodities, the Government will establish formulas for setting prices which can be automatically applied by licensed traders, without prior approval of each change. Merchants will, however, be able to make price changes on their own and will be able to avoid the delays involved in submitting proposed price changes to the Department and waiting months for a reply. Government controls under this new system would occur on a selective basis in an ex post way.

D. PROGRAM COMPONENTS

The successful outcome of the GRM's decision to allow a larger role for private enterprise is highly contingent on a number of factors. The regulatory changes just discussed are fundamental; they will be highly visible symbols of the new orientation and will serve as practical guidelines for entrepreneurs willing to participate in a renewed private sector in Mali. But entrepreneurial access to financing, know-how, markets, labor, inputs, and certain services -- electricity, roads, communications --is also important. It is clear that the Government of Mali cannot singlehandedly assure such access to all potential participants in the private sector. Indeed, even an attempt in this direction would signal a continued belief in the state-led approach to development.

Rather, the GRM can attempt to (1) improve the overall climate for private sector growth and (2) ensure that needed public services are delivered as efficiently and as effectively as possible. Extension of EPRP support to the GRM to accomplish these objectives is discussed in detail below.

The first project component, support for tax reform, will provide a direct stimulus to the development of Mali's private sector. The second project component, budget restructuring support, will provide the GRM the means to address the imbalance between its personnel costs and non-personnel related recurrent expenditures, an imbalance which at present means that civil servants are not furnished with materials and equipment to work efficiently and effectively.

1. Tax Reform

a. The Nature of the Present System

Tax reform has been identified as an area of government intervention which has the potential for contributing significantly to improving the environment for private sector activity. Adjustments in the tax structure are widely perceived to be necessary to reduce their present negative impact on private entrepreneurs. The IMF provided the Malian Ministry of Finance and Plan technical assistance to analyze the Malian tax system on three occasions (1974, 1981, and 1982). The 1981 Tax Mission recommended, among other things, that the GRM: lower the business profits tax (BIC), the tax on internal transactions (IAS), and the general income tax (IGR); replace the system of income splits with personal deductions; change its method of valuing imports; and bring some schedular taxes under the income tax while making offsetting changes in other forms of taxation. It was felt that these measures would enable the GRM to accomplish its economic objectives without threatening to worsen budgetary disequilibria over the medium term (five to ten years).

None of these recommendations had been implemented by 1984, although many had been endorsed, not only by the Malian private sector, but also by the GRM itself. The GRM budgetary situation was such, however, that it was unable to risk of the short-term drop in revenues sure to follow the reforms. In early discussions with the GRM on potentially-useful areas for EPRP support, therefore, the possibility was raised of EPRP financing acting as a "safety net" for undertaking those tax reforms which were most likely to have an incentive effect on private business investments and profitability.

Upon USAID's tentative expression of interest in assisting the Government of Mali to undertake tax reform oriented to stimulating long-term growth in the private sector, the GRM launched two actions. First, two working groups were constituted to review again the IMF recommendations in light of present experience and to make preliminary proposals as to reforms which could be implemented if an EPRP safety net were to be available. Second, the IMF was requested to provide a team of tax experts to update the earlier analyses, consider the working groups' proposals, and recommend a course of action which would accomplish the reform objectives sought.

In essence, the objective sought was a tax reform package which would provide for a more equitable distribution of the tax burden and for better incentives for the growth of private enterprise, but, at the same time, would not present a substantial risk of an unacceptable tax revenue shortfall. This meant identifying specific tax measures as well as potential administrative improvements which could be implemented to increase overall revenues. Assuring risk avoidance meant that it was essential to project the potential revenues realistically. USAID/Mali complemented the IMF team effort by selecting as an EPRP design team member an economist who is a specialist in tax reform issues in France and who had previously worked in Mali on the issue of public recurrent costs.

On the basis of these analyses, summarized in the following sections, it was decided that not only is tax reform in Mali likely to be a key instrument for accomplishing the Government's economic policy reform objectives but that such reform will also help private entrepreneurs to accomplish theirs -- the creation and operation of successful commercial and industrial activities.*

b. Areas for Reform

The present system of taxation in Mali is often characterized as highly confiscatory. Certain measures are insensitive to the taxpayers' ability to pay (whether persons or corporations) while others are highly progressive and discourage savings and investment. In general, therefore, the tax system adversely affects the taxpayer's general acceptance of taxation as well as the tax authorities' motivation to vigorously enforce existing legislation. Both factors contribute to explaining the apparently very high incidence of tax evasion and fraud.

The GRM is, by and large, aware of the private sector's point of view on disincentive aspects of the present system of taxation, but, given revenue needs, has found itself bound into the current system. Following the IMF analyses made in earlier years as well as the those conducted just recently, the GRM has taken stock of the various taxes and tariffs in effect. It has identified those which appear to be both amenable to change and to promise the greatest returns in terms of relieving the immediate tax burden.

By reducing the rates, it is argued, peoples' capacity to comply with tax regulations is increased and incentives to evade are reduced. Rate reduction, therefore, should result in a wider tax base, over which the tax burden can be more widely shared. It need not result in a proportionate reduction in tax revenues. Complementary efforts must be made, of course, to bring about parallel improvements in tax assessment and collection efforts.

The two working groups debated the priorities for reform in this framework and came up with a list of specific taxes which warrant change and a list of equipment and training needs for better management of the internal revenue and customs operations. The tax reforms proposed fall into two categories:

(i). taxes on internal revenue

- Reduction of the minimum tax on business income from 1 percent to 0.25 percent of turnover;

- Elimination of the special tax on real estate "incomes" realized by enterprises occupying their own premises;

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* See Annex F for a summary of private sector views on a number of things including taxes; these were elicited in a survey which was done in 1984. It recounts the principal complaints of Malian entrepreneurs as well as their opinions on what ought to be done.

. Reduction of the payroll tax rate from 15 to 5 percent; and

. Increase in the amounts which can be deducted from business income taxes) for amortization and renewal of equipment and material.

(ii). <u>customs duties</u>

. Revision of customs tariffs (lowering them for primary materials or semi-finished imports and raising them for finished imported products which compete with local production); and

. Experimental elimination of all export taxes for a period of three years.

c. <u>EPRP Support for Tax Reform</u>

It is proposed here to extend EPRP support to the GRM for carrying out the following tax reforms over the next three years:

. Immediate <u>reduction of the payroll tax rate from 15 percent to 7.5 percent</u> of the total wage bill. The short-term impact of this rate reduction will be significantly reduced taxes for businesses with substantial numbers of employees. The longer-term impact sought is generation of more employment opportunities in the Malian economy as the effective price of labor will be reduced. The measure will be costly in terms of revenue loss. Even though the rate reduction is less than proposed initially (7.5 percent instead of 5 percent), the GRM will still experience revenue shortfalls from this tax reform of nearly a billion FCFA per year. The measure will involve no additional administrative costs, however.

. <u>Reduction of top rates on the business income tax</u> (the BIC) starting in 1987; a reduction from 50 to 45 percent for corporations and from 30 to 25 percent for individuals was accepted by the GRM. The revenue loss is expected to be about 300 million FCFA in 1987, but the potential gain to be derived from the increased incentives to invest (and to report profits) is felt to justify the measure. The firms which are in a position to pay business profits taxes are already, by definition, successful businesses. Administration of the rate reduction should pose no difficulties.

. <u>Reduction of the one percent turnover tax</u> (also known as the "minimum BIC") to a rate of 0.75 percent starting in 1987. This tax is presently levied on the total gross revenue of a firm, whether the firm realized a profit or loss. Firms which make a profit also pay the regular business income tax (the BIC), levied at a progressive rate. The "minimum BIC" is viewed as punishing to firms in temporary difficulties and as penalizing to firms with large turnovers and low profit margins, although it has no positive or negative effect on firms earning profits since it is deducted from the amount of the BIC. The symbolic effect of a slight reduction in the rate of the minimum BIC has, therefore, been stressed by the GRM. The slight reduction will engender a substantial revenue shortfall, about 400 million FCFA a year. It has been accepted for EPRP coverage on the condition that the rates for the BIC are reduced at the same time; and

- Realignment of customs duties to increase incentives for local manufacturing and processing is an overdue measure for reform. Realignment will involve two separate actions:

  - Lowering customs tariffs on primary materials and semi-finished goods and raising those on imports of finished products using those materials. The impact of these actions will be to support Malian manufacturers' incentives by reducing unfair competition from imports. Reversing this situation will be one of the first actions undertaken and is estimated to incur a revenue loss of about 250 million FCFA in the first year. Estimates of revenue loss in following years are projected at a relatively high 755 million FCFA per year, based upon assumptions of declining imports of finished goods (with high duties) and increased imports of semi-finished goods (lower duties).

  - The "administered" values (valeurs mercuriales) applied in the assessment of customs duties should be revised upward. These values have not been adjusted since 1981 and were, even at that time, only a fraction of market value. The IMF recommends immediate re-evaluation in order to compensate for some of the losses likely to be experienced by other reform measures. This measure is, however, felt to be politically risky as the commodities covered by these values (fuel and petroleum products, staple food commodities, and cloth) play an important role in national consumption. Raising the values will also have the effect of raising prices for these commodities and is likely to be resisted. EPRP supports the revision of these values not only for their revenue-enhancement effect but also for its long-term impact on structural price reforms.

A key concern in determining which specific measures to support with EPRP financing has been to avoid reductions of taxes where no specific incentive effect can be identified as a likely outcome of the reduction. In addition, several options which would have required substantial adminstrative change over a very short period of time were laid aside. While some administrative improvement is expected over the years in which EPRP funding will be available -- and, indeed, is essential to provide for overall recovery of revenue to pre-reform levels, it seemed unwise in the extreme to leave the tax system with such a large shortfall at the end of the three years as to leave the GRM no choice but to increase tax rates again.

Other tax reform measures were attractive according to our principal selection criterion -- positive impact on growth prospects in the private sector -- but simply could not be supported for lack of financing:

- Reduction of the rates for the tax on dividend incomes (the IRVM). This tax which currently provides very little in the way of revenue but it may be highly disincentive to entrepreneurial investment in capital and to the development of publicly-held companies.

- Increased deductibility for savings intended to be used for replacement and rehabilitation of capital. Present rules do not allow for inflation.

- Elimination of a tax on income from enterprise-occupied buildings, the revenue foncier. This tax is based on a fictive evaluation of revenue, discourages firms from investing in occupied real estate, and is widely thought to be abused. It generates little in the way of revenue, less than 200 million FCFA per year. Its elimination would be largely symbolic at this time, but it might also be a stimulant to investment in fixed capital.

In addition, the IMF and USAID experts explored the possibilities of reducing rates on the general income tax. The top marginal rate of the general income tax (IGR) was already reduced from 70 percent to 50 percent in 1982. Two ways of effecting a further reduction in this still very high rate were considered: (1) widening of the income tax brackets (the 50 percent rate is applicable when personal income is just over the equivalent of $4000 per year); and (2) reducing the rates overall (say, from 50 to 35 percent for the top marginal rate). Unfortunately, the data base did not permit detailed enough analysis of these options to serve as the basis for a firm recommendation.

The working group which addressed customs issues proposed undertaking an experimental elimination of all export taxes. These taxes are often cited as providing a disincentive to increased production in Mali and an incentive to clandestine exports over the borders to neighboring countries. The IMF Mission agreed with this analysis and suggested permanent removal. EPRP resources proved to be inadequate to cover this shortfall, however, and because the evidence on the likelihood of stimulating greater exports is so limited and the rates applied are only in the range of one to five percent ad valorem, it was decided not to offset revenue losses due to this particular measure.

In addition, the various tax experts suggested two other areas which required further analysis or testing before being adopted on a full-scale basis:

- revision in the method of computing multiple taxes (changing from the present base sur base to a taxe sur taxe basis); and

- the possibility of creating duty free zones (exempt from all import and export taxes, payroll taxes, etc.).

The revision of tax computation methods has been selected as the one with the highest priority and will receive major attention. At this time, no revenue shortfall is projected for the implementation of this measure so no direct EPRP support is envisioned. Implementation of all these analyses requires that the Departments of Internal Revenue and Customs be assisted in improving their databases (through computerization and better information management), using solid analytical frameworks, and generally improving the quality of staff.

It has been agreed that EPRP assistance would be most useful in the area of computerization. Thus, funding for both equipment and training has been included in the overall tax reform budget found in Section IV below. The mechanism through which EPRP support will be provided for tax reform and the performance disbursement criteria which will be applied are discussed in detail below in Section V.D.

2. Budget Restructuring

a. Overview

The difficult task of bringing public sector expenditures into line with public sector revenues is one which all governments must address. Like other governments, the GRM has used the IMF Stand-By Agreement mechanism in recent years in its efforts to reduce its operating deficit and to establish an expenditure pattern which can be sustained. While the results of the 1982 and 1984/85 IMF Agreements have been very positive, the projected closing of the budgetary gap has not yet been achieved.

There are several reasons for the continued deficit, some structural and some arising out of particular economic circumstances. Among the structural factors is the dominance of the public sector wage bill in the government budget. Given the (former) policy of automatic public employment for all secondary school graduates, the share of personnel in current budgetary expenditure has been over 60 percent since 1980 and has continued to grow as the Civil Service acquired new members and as those in the Service already gained in seniority and average pay even though wages were frozen in 1982.

From 1981 to 1984, the ratio of non-wage recurrent outlays ("expenditures on materials") to personnel expenditures was roughly constant at 0.30. This level of expenditures on materials relative to expenditures on personnel is very low compared to most other countries, including countries with economic structures similar to that of Mali. Anecdotal evidence in Mali strongly supports the implication that shortages of supplies hamper civil servants in the performance of their jobs. Analytical evidence (see Annex D) shows that without concerted efforts to contain personnel expenditures, the ratio will deteriorate even further, falling to 0.20 by the year 2000.

One way of dealing with the incontrovertible weight of the wage bill while trying to decrease the budet deficit is simply to freeze non-wage expenditures while restraining the growth in personnel outlays. Indeed, this method was applied in the IMF/GRM programs. Not only did this temporarily aggravate even further the imbalance, but it provides only a temporary expedient for the budgetary solution. If extended indefinitely, while employment and wage costs are rising, the imbalance between people and working materials will reduce productivity to unacceptable levels.

The significant upward social pressure on expenditures exerted by the salary demands of the Civil Service was vividly demonstrated in early 1985, when a ten percent salary increase (the first in three years) was announced by the President. Unfortunately, the implementation of this salary increase threw into relief the weakness of the revenue-generating capacity in Mali. Projected increases in revenues to cover the rise in the wage bill (largely through additional import duties) did not materialize as national economic activity and personal incomes declined under the impact of two years of severe drought. And the GRM has been understandably reluctant to increase tax rates and customs duties further as it is already widely agreed, as discussed above, that the present tax system is already so confiscatory that additional levies would encourage even more evasion and depress private sector economic incentives further.

It is apparent, then, that the task of bringing the budget into a sustainable equilibrium and maintaining an effective system of public sector delivery of goods and services requires action not only to generate new revenues, but also to reallocate the expenditures of those revenues. The objective of budget restructuring in Mali is a reduction in the share of the budget going to meet the public payroll and an increase in the portion devoted to the working materials, operating expenses and investments which enable public employees in high priority economic and social sectors to do their work more efficiently and efffectively.

b. Some Options

Apart from the approaches already discussed (increasing tax revenues and freezing personnel expenditures), the GRM has perhaps two principal options in its search for a budgetary allocation which would increase productivity:

- It can seek external financial support for its budget and alter the ratio immediately with the injection of these new resources into the materials budget; or

- It can reduce the weight of personnel expenditures directly.

It is probable that Mali has already used the first option to a greater extent than realized. Externally-funded projects and programs do not enter into the regular budget of the Government; there is thus no way to know to what extent project resources are supplementing the GRM's own materials allocations. This statistical problem is in the process of being remedied with UNDP assistance and the results will be carefully examined to get a "truer" picture of the Malian situation. The new budgetary classification and coding system (see Annex H) could, if extended to the reporting of external assistance, be of immense value in this task for the future.

Several ways can be suggested to implement the second option:

- continuing to freeze wages and control hiring, while maintaining or increasing the overall level of budget expenditure (on the basis of increased revenue);

- forcibly reducing the payroll by firing individuals, disbanding public agencies, etc., again, while maintaining or increasing total expenditures;

- allowing private sector takeover of selected public ervices, e.g., health services delivery, education, etc.; and

- encouraging civil servants to retire early and not filling their positions as they leave.

c. <u>The GRM Choice</u>

Each of these approaches has certain advantages and disadvantages. As was noted above, the wage freeze/controlled hiring approach has already been tried, with positive although limited success. It is also our view that this approach is not sustainable in Mali even over the short- to medium- term. The re-entry into the West African Monetary Union has made Malian civil servants conscious of the differences between their salary levels and those of their peers in neighboring countries. There is also a perception that the cost of living has risen and must be compensated for through a salary increase.

The political risk of extensive, involuntary reductions-in-force has been judged to be unacceptable by the GRM at this time. The possibility of random loss of effectiveness in public service delivery has discouraged further consideration of the approach based upon non-replacement of retirees.

Permitting civil servants now providing selected public services to set up similar service delivery operations in the private sector is a more attractive approach. It has already been accepted by the GRM in principle, and has been announced as a specific policy in health.

It has proved difficult to implement, however, and planning for the transition is still in early stages. In part, the difficulty stems from the fear that public services delivery would suffer to an unacceptable degree if such departures were uncontrolled. There is a widespread view that all the excellent professionals would leave and all the mediocre ones would remain. On the other hand, devising controls which ensure maintenance of adequate public services, are fair to individual professionals, and yet do not stifle all incentive among those who are likely to be able to successfully establish themselves in the private sector has been problematic. The analysis of public sector manpower needs which is to be completed in the next two years (the <u>cadre organique</u> process discussed in Annex H) promises to be very useful in resolving these problems by generating a workable set of guidelines along which privatization could be encouraged. It cannot be denied that this approach has an intuitive appeal for the GRM, individual civil servants, and donors alike.

Considering all these pro's and con's, the approach which the GRM has decided to try involves encouraging individuals to retire voluntarily from the Civil Service while at the same time facilitating within-government transfers to fill vacancies and restricting, but not halting, entry in order to provide for a steady inflow of new talent. The basic features of such a voluntary early departure (VED) program are now in place although remaining uncertainties indicate that such a program must be undertaken in a learning, self-correcting mode. There is a commitment, however, to making it work.

The program concept involves provision of a set of financial incentives to encourage those interested in leaving the Civil Service for employment elsewhere to do so. The GRM has determined that a feasible objective at this point is an experimental program involving about 600 people over a two to three year period. The principal characteristics of the program are summarized below. A more detailed presentation of the VED program is found in Annex H.

- A pension guarantee scheme: Civil servants choosing early retirement and having between 5 and 14 years of service will receive the equivalent of all personal contributions made to the Malian Retirement Fund (CMR) as well as those made on their behalf by the Government. Those civil servants having more than 14 years of service and more than 5 years before mandatory retirement will not receive compensation but will, rather, be guaranteed their pensions when they reach the mandatory retirement age. The amount of these pensions will be the same as if they had remained in the Civil Service and had continued to make normal advancements in seniority and salary levels.

- Severance pay: A fund of approximately two billion FCFA will be set up by the GRM to provide severance pay. Civil servants will be offered differeing levels of severance pay, depending on their professional level. Those at the highest level (Category A) will receive severance pay of 4 million FCFA if they choose to retire (about \$8900); middle level (Category B), 2.5 million FCFA (about \$5500); and those at the lowest level (Category C), 1.7 million FCFA (\$3800).

- Credit guarantee program: A Credit Guarantee Fund of about 900 million FCFA will be established at the Central Bank of West Africa (Mali) and will be managed by the Bank. This Fund will cover 50 percent of the credit extended to former civil servants who have taken advantage of the voluntary retirement scheme. The maximum amount guaranteed per participant will be 5 million FCFA.

- Feasibility Study Fund: A Feasibility Study Fund of about 150 million FCFA will also be established at the Central Bank. The Fund will provide up to 50 percent of the cost of feasibility studies needed up to a maximum of 250,000 FCFA per applicant.

Several conditions are seen as necessary to launching and ensuring the rational development of this personnel reduction program:

- completing the physical verification of all public employees (the controle physique des effectifs) and establishing the capacity to do spot-checks in the future;

- using this verified information on all civil servants as the basis for establishing and operating a computerized payroll system;

- developing the government's capability for more effective manpower planning, e.g., by conducting agency/position classification surveys (the cadre organique exercise) for all public sector ministries and organizations and using the database thus established to plan for both streamlining and selective expansion of the Civil Service;

- computerizing the budget, using an improved budget classification system, to enable more timely and complete tracking of expenditures and receipts and to improve decision-making in the allocation process. Several other actions must be undertaken to set up the personnel reduction program itself:

- establishing a procedure by which individuals can apply for early retirement, be approved, and receive severance and retirement pay entitlements;

- providing resources (advisory services, credit, contacts) and a generally positive policy and regulatory environment which will facilitate retirees' re-entry into the private sector;

- fostering the transfer of civil servants to fill vacancies;

- establishing hiring limits and applying them;

- setting up control mechanisms to ensure that those who voluntarily retire and receive benefits associated with such retirement do not re-apply for Civil Service positions; and

- providing a monitoring and evaluation mechanism to determine if and when adjustments in the program are needed.

Provided that the costs of the program itself are kept under control, at least 600 civil servants leave over a two year period, and new entries are strictly budgeted on an annual basis, the budgetary savings generated by the program will be sufficient to positively affect the structure of the government budget.

Ceteris paribus, we project a 66 percent increase in materials expenditure will be possible in 1990 (over the baseline materials/personnel expenditures ratio of 0.20 which would be expected if no reductions were made in personnel and recruiting continued as planned). If revenue collections are strengthened as a result of the tax reform program (the baseline assumption is 7.5 percent revenue growth each year), the ratio between personnel and non-personnel (materials) expenditures could be improved even further. (Details on these calculations are found in Annex D).

The GRM also plans to extend some of the concepts involved in Civil Service personnel reductions to the process of privatization of public enterprises. Under the terms of the previous IMF Stand-By Agreements, the three public enterprises incurring the greatest losses (SOMIEX, COMATEX, and AIR MALI) were required to discharge about 1000 employees in an effort to stem the flows of red ink. Under time pressure, the GRM carried out this measure at some political cost.

A new project of public enterprise reform and rehabilitation is now scheduled to begin with World Bank funding within the next year. The feasibility study for this project (Rapport P & A) provided an overall diagnosis of the sector and divided public enterprises into three categories:

- enterprises requiring fine-tuning;

- enterprises requiring major rehabilitation or further study as to their long-term viability; and

- enterprises to be closed or privatized if private partners could be identified.

The World Bank-supported project provides for a series of actions, all of which are highly complementary to those supported by the EPRP:

. privatizing, liquidating or otherwise spinning off ten public enterprises;

. rehabilitation of five enterprises; and

. policy and institutional reform aimed at changing the institutional links between the GRM and the public enterprises to provide for greater managerial and financial autonomy as well as greater accountability, to establish criteria to be met prior to creating or investing in public enterprises, to improve the payments system among the public enterprises and the GRM, and to remove tax provisions discriminatory towards public enterprises.

While the implementation of these plans is not likely to be officially begun before July, 1986, the World Bank will provide technical assistance to the Ministry of Plan (which will be the executing Ministry for the GRM) to permit certain actions to get underway in the short term. In addition, the Ministry for State Enterprises is actively engaging in discussions with potential private sector buyers for those enterprises targeted for privatization or closure. However, the private sector representatives interested in purchasing public enterprises are only interested in doing so on the condition that they are not forced to employ the total number of employees currently in place. The Ministry for State Enterprises, therefore, must develop and negotiate a personnel reduction plan for these public enterprise employees.

The GRM has thus decided to implement a program for such personnel reduction which shares some features of the voluntary reduction program it intends to put in place for reducing the number of civil servants.

d. EPRP Support for Budget Restructuring

The cost of implementing the voluntary departure program for civil servants and the state enterprise personnel reduction program will temporarily place a very heavy burden on the public budget. Over $5 million over a period of two years will be needed to mount the programs as planned, implying a nine percent increase in personnel expenditures over the expected level. Unless additional revenues are found to offset these costs, these policy reforms will result in deep cuts in expenditures on materials and equipment. The immediate impact of such expenditure cuts would be a further sharp reduction in the quality of public sector service delivery.

To encourage the GRM to undertake these actions in spite of the short-term budgetary costs, USAID/Mali plans to provide dollar resources to the GRM in 1986 and 1987, the years of the greatest shortfalls due to the policy reform-related actions. The amount of dollar support contemplated will be sufficient to achieve a slight increase in materials expenditure over the recent trends. If the GRM restricts recruitment of new civil servants to about 1100 in 1987 and 800 in 1988 while carrying out a voluntary early departure program tentatively targeted at 600 civil servants, the EPRP resources will permit roughly $1.5 million in additional non-wage recurrent expenditures in 1987 and 1988. This translates into a five percent increase in materials expenditures in 1987 and a 12 percent increase in 1988. The GRM projects sufficient savings from its personnel reduction effort to allow for a continuation of this increased level of materials expenditures.

To further address the public sector productivity problem, the EPRP will provide goods and services (principally in the area of computerization) to the GRM to permit the ministries and departments carrying out policy reform-related measures to augment their capacity to provide efficient and effective services.

IV. PROGRAM IMPACT

Policy reform is often a necessary, but far from sufficient, condition for bringing about concrete change in economic conditions. This is particularly the case in Mali, where climatic variability and technological progress are important factors in determining annual output. Nevertheless, the kinds of fundamental policy and development strategy modifications which have been made by the Government of Mali over the course of the last five years have begun to establish a new macroeconomic framework for long-term sustainable economic growth in Mali.

The impact of regulatory and tax reforms is expected to be very broad. First, revised licensing procedures for businesses, trade regulations, and tax structures should provide greater incentives for new investments in the private sector, increased opportunities for trade, and reduced incentives for tax evasion. Second, tax reforms should affect social equity. Larger, richer households now pay proportionally fewer taxes than smaller, poorer households. Industries which are losing money pay nearly the same amount of taxes as profit-making industries breaking even or making slight profits with similar volumes of turnover. Tax reform can place in the hands of the Government additional tools to encourage the <u>growth and good performance of the private sector</u> while at the same time maintaining or perhaps even <u>increasing government revenues</u> through improved tax administration.

The impact of public sector personnel reforms, both in the Civil Service and in public enterprises, will be measured in the first instance by a reduced wage bill. More important, however, will be the impact achieved by <u>expenditure of the savings</u> which will be realized by the Government and the public enterprises from this reduced payroll. On the Government side, it is anticipated that these savings will be translated into increased allocations for the materials which will permit <u>Civil Service personnel to better perform their functions</u>. On the public enterprise side, the impact of reduced payroll expenditures will be seen in increased profitability.

Both the magnitude and timing of each of these projected impacts is discussed in further detail below. The statistical data base is uniformly weak and further precision is, at this time, impossible. An effort has been made, therefore, to identify performance indicators which will reflect various aspects of these broader impacts. The Program Coordination Unit is charged with establishing the baseline numbers for these indicators and with monitoring changes in them as the Program moves forward.

A. <u>Growth of private enterprise</u>

The recognition that public sector initiative alone is not capable of stimulating and sustaining adequate economic growth in Mali has been one of the major factors driving a series of policy reforms. The private sector has gradually been ceded a larger role in the economy and, with the implementation of many of the policy reform-related measures discussed in this PAAD, its role and contributions to the national welfare are expected to grow. Measurement of this change is not going to be easy, however, because of the difficulties inherent in collecting accurate data.

A number of indicators have been examined in an effort to establish a baseline for private sector participation. Given the methods used to calculate and report the GDP (by functional sectors -- agriculture, livestock, industry, transport, etc.) in Mali, it is difficult to separate the contributions of private and public enterprises. The lists of private companies (including sole proprietorships) which have been officially licensed or which have paid the basic annual business tax provide another potential indicator of activity. Unfortunately, these measures suffer from incompleteness. Because of the difficulties in completing the agrement procedure, it is said that as many as five or six businessmen can be found hiding behind one who is licensed. While such estimates are totally unsubstantiated by data, there is enough evidence to indicate that legally-qualified traders and businesses are seriously understated in the official data. The projected reform of the Commercial Code is likely to have the effect of bringing some of these hidden private enterprises out of the woodwork, but it would be false to interpret any increases in these numbers as representing real growth in the sector.

A more limited, but perhaps indicative, measure examined as a possible baseline was employment. A report prepared by a Malian consulting firm in 1981 shows employment of 17,000 people in the organized private sector (for which the payroll tax is paid and income tax withheld from salaries) and 41,000 in the informal sector out of a total modern labor force of 156,000 -- a ratio of nearly four workers being paid by the public sector to every one paid by the private. While these numbers understate the actual number in private sector employment (probably by more than a factor of ten), as only some informal sector employees are included, they seem to be a valid indicator for the "tip of the iceberg" at least and may serve as a useful baseline for private sector development. The organized formal employment number in particular will not be very sensitive to changes in registration and licensing procedures and will reflect growth in the kind of major, long-term investment which the tax reforms should stimulate. It is also relatively easy to monitor as the Bureau of Internal Revenue routinely collects this information in the collection of the payroll tax.

Another indicator of private sector growth might be the amount of credit extended to private entrepreneurs by the banks. Given that Mali's Central Bank imposes a ceiling on credit and monitors credit flows by sector, it might be possible to derive from the normal Bank records at least a summary view of lending trends throughout the period of the Program.

One other set of statistics might be useful as an indicator of private sector growth, especially as their collection is one of the administrative measures which the Customs Bureau inteds to implement as part of the tax reform package. Import and export data classified by enterprise engaged in the activity should provide an important gauge of the volume of private- sector oriented trade. Steps will be taken by the Program Coordination Unit to ensure that these data are available for each annual evaluation of the EPRP.

B. Revenue Improvements

While the short-term result of the tax reform program will be revenue shortfalls as far as the GRM is concerned, the medium-term impact of the various measures undertaken should be:

1. expansion of the tax base -- by increased registration of businesses and, therefore, increased license fees, payroll taxes, and income taxes. Some of this expansion will correspond to program-induced expansion of employment and output of enterprises already registered as well as to creation of new enterprises in response to the more favorable tax climate; and

2. recovery of pre-reform revenue levels -- because of: lower rates levied on a larger tax base; changes made in the valuation of imports; and improved administrative efficiency (due to training and computerization) with attendant reductions in underdeclaration and outright evasion of taxes.

These effects will be relatively simple to monitor. Table V.D.1 below summarizes very briefly the relative movement expected in these indicators based upon the data made available to the IMF tax experts (June, 1985) and to the EPRP design consultant.

In the first year, a Government revenue loss of approximately $2.6 million will be offset by EPRP resources. In subsequent years, if the administrative improvements are implemented on schedule and yield as well as expected, the increased revenues will more than offset the losses. These revenue gains will, in combination with the personnel reduction program, permit further improvement in the materials/personnel ratio, but the short-term effect will be slight. Although such impacts are not now quantified in as much detail as desirable, the EPRP support will permit the improvement of record-keeping and analysis in the Tax Departments (Revenue and Customs) and the Program Coordinating Group will be charged with ensuring that reports are prepared on an annual basis to assess these indicators.

C. <u>Savings Generation</u>

Budgetary savings, which are of major importance to the EPRP program success, are those which will be generated by the GRM personnel reduction program. Even though it is seen as a pilot effort, the Voluntary Early Departure (VED) Program alone is expected to have a significant effect on overall personnel expenditures after 1988 (assuming that the target of 600 civil servants volunteering to retire early is realized), as is demonstrated in Table 1 in Annex D. The VED program will generate a stream of savings, the net present value of which is estimated to be about $8.5 million. If one compares the net present value of the VED program expenditures to the net present value of salaries and pension benefits that the GRM would have paid for these employees, the benefit-cost ratio is about four to one. If <u>all</u> the costs associated with the Credit Guarantee and Feasibility Study Funds are included and <u>only</u> the budgetary savings benefits are calculated, the benefit-cost ratio is about 2.5 to one.

If the budgetary ceiling on hiring is maintained at the level established for 1985 in the 1984/85 IMF Stand-By Agreement (750 million FCFA or about 1400 persons), less visible budgetary savings will also be realized by the GRM. Net savings are difficult to quantify in this case, however, as they depend on assumptions about what would have occurred in the absence of such control. In order to estimate this stream of benefits, we have used a projections model and included ceiling levels of 1100 new-hires in 1987 and 800 new hires in

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1988 and following years. Assuming average entry level salaries and a normal progression of wage increases as seniority is gained, these reductions in the number of new entrants into the Malian civil service will generate over $50 million in budgetary savings between 1987 and the year 2000. Restrictions on new hiring are conditions to EPRP funding for budget restructuring; although "costless" to the GRM, the positive impact over the long-term is critically important to resolving the budgetary imbalance.

Both the progress of the VED program and the establishment of hiring ceilings will be monitored by the Program Coordination Unit to assess the extent to which the anticipated modification of the budget structure (altering the materials/personnel expenditure ratio) will be achieved. Target ratios can be established on a tentative basis, but will need reassessment on an annual basis as they are sensitive to a number of external variables. At the annual joint USAID/GRM evaluation of progress on the policy reform measures, therefore, a quantified budget allocation target will be set for the following year.

The budgetary projection model developed during the course of EPRP design will be used to guide this discussion and to evaluate the results of the previous year. As the model is highly responsive to assumptions on revenue growth, debt service, and factors such as income increases, long-term estimates projected using the model have to be verified as these assumptions change, but it is a most useful tool for tracking changes on an annual basis. It is essential that, if the budget restructuring effort is to be sustained in the absence of significant increases in public revenue, the GRM find some way to generate real savings on the personnel account and to reinvest these savings in working materials, operating costs, and investments which will make those employees still in the Civil Service more productive and effective workers.

The tax reform component of the Program should also have a savings effect -- for private sector entrepreneurs. Reduction of the top marginal rate of the business income tax will translate directly into a savings for private commercial taxpayers of over 300 million FCFA per year. It is expected that these already-profitable firms or individuals will re-invest at least part of these savings into their enterprises or retain them on deposit in banks for future investments. Unfortunately, for revenue reasons, two other tax adjustment measures which would also have had a savings-incentive effect were not retained for Program support.

D. Efficiency of the Public Sector

The short-term measurable impact of the EPRP budget restructuring effort in terms of civil servants' productivity is likely to be limited to specific departments and units in the Ministry of Finance (including the various tax divisions and the Treasury as well as Budget), the Ministry of Employment and Civil Service, and the National Commission for Administrative Reform programmed to benefit directly from increased materials expenditures (mainly on computerization) and training. Conventional measures of numbers of documents handled, turnaround time, and reports generated will be developed to monitor the impact of EPRP financing of specific goods and services.

The short-term measurable impact of the GRM's voluntary early departure program on overall efficiency is expected to be nil -- neither negative nor positive. Even without hard data which would permit a quantification of the problem of a "plethora of civil servants", it is assumed that a superabundance of personnel in comparison to means and materials with which to work exists and that a reduction of up to 600 civil servants can be made with no visible impact on overall function. The impact of overall budget restructuring and personnel reduction efforts over the longer-term is expected to be considerably more substantial, although it will be very diffuse and will require subtle evaluation.

Two important tools for evaluation are scheduled to be put into place, however, over the life of the EPR Program. First, the installation of the new budget classification and coding procedure for reporting both receipts and expenditures will provide a much improved database for developing wider indicators of public sector productivity. Budget management is now so variable by ministry and by department that even reported personnel expenditures have sometimes been found to have been re-directed to operating costs or equipment. Second, the completion of the cadres organiques, the staffing patterns and job descriptions and classifications for each unit of the public sector which will be drawn up by mid-1987, will provide another source of insight into public sector productivity in the delivery of goods and services. The CNRA is already charged with reviewing the draft staffing patterns in this light; the Program Coordination Unit will be tasked with summarizing these findings and integrating them with the experience of the budget restructuring and personnel reduction program efforts.

Finally, it should be mentioned that certain technical ministries are still committed to considering further the possibility of reallocating certain public functions to the private sector (e.g., health care services, veterinary services, certain credit programs). Privatization, it is felt, will engender more incentives to work and to succeed and thus promote an overall increase in productivity. This will, therefore, be an element in the ongoing policy dialogue between USAID and the GRM, which will be sustained in part by the mutual commitment to the EPRP and, in part, by USAID/Mali's normal program of bilateral assistance.

V. PROGRAM IMPLEMENTATION

A. Overall Implementation Responsibility

The responsibility for implementing the policy reform-related activities described in Section III will rest with the Government of the Republic of Mali. The role of USAID will be to support selected activities with financial assistance; technical assistance will be limited to Program coordination and monitoring and to the installation and use of computer equipment acquired with EPRP funding.

1. Government of Mali

The principal executing agency for the Government of Mali will be the Ministry of Finance. It will have overall responsibility for assuring the implementation of agreed-upon policy reform measures. The Payroll Office, the Bureau of the Budget, Treasury, Department of Internal Revenues, Department of Customs, and the Bureau of Economic Affairs are all part of this Ministry and will, as discussed above, assume specific responsibility for carrying out certain programs in support of the policy reform effort.

The GRM will assign two senior Malian civil servants to the Program Coordination Unit (see Section B below), which will also be housed in the Ministry of Finance, to coordinate actions on a day-to-day basis as needed, to monitor the accomplishment of various measures, and to prepare for the annual joint GRM/USAID review of Program progress.

The GRM agencies responsible both for the implementation of the EPRP and for carrying out related policy reform activities (even though these will not receive direct funding from the Program) and their relationships to each other are presented in Annex G.

2. A.I.D.

USAID/Mali will be responsible for determining when conditions are met, assuring that disbursements are made, that negotiations are held with the GRM at appropriate levels when there is a likelihood that conditions will not be met, and for exercising general substantive oversight on the policy reform process in Mali. USAID will participate in all technical reviews and evaluations aimed at measuring implementation progress and program impact and identifying the causal factors underlying each and will both participate in and brief other Mission officers for the joint USAID/GRM Program level reviews (discussed more fully below).

USAID/Mali will form a steering committee of Mission personnel to provide technical support for policy monitoring, evaluation, and management input for the procurement of contract services to provide technical assistance and procure commodities. The committee will include the Mission Program Economist (chairman), the Mission Agricultural Economist, the Mission Controller, and the Mission Management Officer. The Mission Director, with guidance from the steering committee, will make the final determination regarding the meeting of the conditions precedent.

B. Program Coordination and Monitoring

Before signature of the Agreement, a Program Coordination Unit (PCU) will be established within the Ministry of Finance. The PCU will include a technical assistant recruited by USAID and two Malian staff members appointed by the Ministry of Finance. The principal role of the Unit will be to facilitate continuing coordination between USAID and the GRM, and particularly to assist in follow-up and periodic evaluation of implementation of the two components. The operating costs of the Unit, including the services of the expert, the allowances and per diems for the two staff members, and the necessary equipment and materials, will be covered by the Program, for which cost estimates are provided in Annex G. The Ministry of Finance will provide an office and necessary logistical support. Terms of reference for the Unit and a monitoring and evaluation system will be the subject of a detailed agreement between the GRM and USAID before the Unit is actually operative.

Its initial functions will be: (1) to supervise procurement of goods and services to be acquired with the initial Program disbursement; and (2) to monitor GRM progress in fulfilling the conditions precedent of the EPRP in a timely manner, particularly with regard to computerizing the payroll by the end of Mali FY 1985 (December 31); installing a new system of budgetary classification; and following the organization/job classification (cadre organique) process.

On a continuous basis, the PCU members will be expected to:

- communicate progress and problems to the Minister of Finance or his designate on a regular basis;
- report regularly to the USAID project manager regarding the progress in implementing the various measures specified in the EPRP Program Agreement as conditions precedent or as policy reform measures agreed to under the program;
- prepare all documentation necessary for joint GRM/USAID review of progress one month prior to each planned disbursement of funds;
- arrange for the necessary policy studies, assessments, and seminars/workshops to facilitate the planning and implementation and evaluation of policy reforms;
- monitor the issuance of any administrative decrees required for policy implementation; and
- coordinate inter-ministerial and joint GRM/USAID reviews and evaluations of the policy reform program.

Finally, the PCU will be required to assist in designing and negotiating Program modifications.] The joint review process described in Section D below will identify what needs to be done, but there is likely to be a certain amount of technical consultation and drafting of agreements before the modification can be considered to be in place. It will be the job of the PCU to ensure that such work is carried out in a timely, professional way.

C. Procurement of Goods and Services

EPRP funds will be used to procure goods and services which will:

- establish and maintain the Program Coordination Unit for the life of the Program;
- assist the GRM to meet the conditions for the disbursement of the first tranche of Budget Restructuring funds; and
- support, during the life of the Program, selected GRM activities which are related to or part of the policy reform-activities funded by EPRP.

Given the relatively short duration of this Program (three years) and the policy reform momentum which the GRM wishes to maintain, USAID/Mali proposes to initiate, as soon as the Short-Form Program Agreement is signed:

- local hiring of an initial Program Coordinator to head the PCU;

- local procurement of office equipment and supplies for the Program Coordination Unit; and

- a contract with an IQC and/or or an 8(a) firm for "procurement services" pertaining to purchase, burn-in, delivery, installation (including local training) of computer equipment for the Ministry of Finance (see Annex G) and long-term technical assistance.

The priority nature of these procurements is indicated by the need to assure that the GRM will be able to accomplish the Conditions Precedent for the Budget Restructuring Component of the EPRP before or soon after the end of calender year 1985 (the beginning of the GRM fiscal year 1986). This will be feasible only if: (1) the computer equipment needed to automate the payroll and to use the new budget classification and coding procedures is installed and Malians are adequately trained in its use by December, 1985; and (2) the Program Coordination Unit (PCU) is established within the Ministry of Finance to keep the process on track. In addition, it is important to the effective execution of the Tax Reform Component of the EPRP that the Department of Internal Revenues acquire and use computer equipment as rapidly as possible.

To meet this schedule, two separate procurement actions will be taken. First, immediate action will be taken following the signing of the Program Agreement to establish a Program Coordination Unit (PCU) in the Ministry of Finance to enable that ministry to carry out its role as coordinator of the EPR Program. As already described, its first major task will be to coordinate and expedite the work of the numerous GRM offices involved in the computerization of the civil service payroll and budgeting process.

USAID/Mali will hire, following local personnel procurement regulations, at least one expatriate experienced in Malian budget and personnel systems as an initial Program Coordinator for a period not to exceed one year. This interim Program Coordinator will assist in the initiation of the long-term contractual relationship with a U.S. firm as well as the establishment and furnishing of the PCU office facilities. The facilities themselves will be provided by the GRM, but will need a typewriter, telephones, a photocopier, mimeograph, chairs, and normal office supplies (paper, pencils, etc.). (Costing of this procurement list is found in Annex G). These shelf items will be procured locally.

Second, USAID/Mali will seek a U.S. firm (or firms) capable of providing both long- and short-term technical assistance and computer procurement, installation, and training services. This firm (or firms) will purchase and deliver the required equipment (specifications for which have been prepared as part of the design process (see Annex G)), install it in the Central Payroll Office and Budget Division of the Ministry of Finance and provide initial short-term training for personnel who will operate it.

The Mission decision as to IQC and/or 8(a) firm will be based upon more in-depth examination of capabilities offered by potential firms. It would be desirable to have continuity in the area of computerization as well as a certain coordination of effort between the Program Coordinator and the Automation Coordinator (Computer Specialist). Preliminary inquiries indicate that several 8(a) firms are likely to be capable of providing both kinds of technical assistance, but this has not yet been confirmed in sufficient depth. An IQC firm, however, might permit more rapid start-up on the computer side and an earlier completion of conditions precedent which are based upon computerization in Mali.

If the decision is made to use both contracting approaches, an 8(a) or other firm would be sought to provide: long-term assistance (both Program Coordinator and long-term computer specialist); the short-term assistance (six person-months) needed to support monitoring and coordination activities of the PCU (e.g., budget specialists, tax reform specialists, programming specialists, etc.) and to carry out required computer training); and follow-on equipment and supplies procurement, both locally and in the U.S. The IQC would be limited simply to computer purchase, burn-in, installation, and initial training.

The authorized source and origin for all commodities will be geographic code 941. It is essential that the computer specialist be in Bamako, Mali no later than October, 1985 and the long-term Program Coordinator be there by March, 1986. Excellent fluency in French is a prerequisite for both positions.

It should be noted that additional training for Malian personnel in computer applications relevant to the EPRP objectives will be provided by the UNDP-financed technical assistance team already in place in the National Commission for Administrative Reform (CNRA). This team has developed the substantive plans for changes to be made in the personnel and budget management systems. Since these technicians are not completely familiar with U.S. equipment, however, the contract technicians will need to develop the CNRA staff's understanding of the equipment so they, in turn, can use it effectively in training.

D. <u>Conditional Dollar Disbursements</u>

The detailed financial plan for the program appears in Section F below. The overall U.S. contribution will be $18.0 million provided in the form of a grant. Approximately $16.7 million will be disbursed in dollars in annual tranches subject to GRM fulfillment of specified conditions as laid out in the Program Grant Agreement (see Annex J). Approximately $1.3 million will be managed directly by USAID/Mali for purposes specified in a Short-Form Program Agreement (Annex J) which will be signed at the same time as the Program Grant Agreement. An initial dollar disbursement to the GRM will be made at the time of signing of both the Program Agreement and the Short Form Program Agreement.

As described in Annex J, the simultaneous approval of two separate Agreements will facilitate program management. The Short Form Program Agreement will include provisions covering financing of the Program Coordination Unit, the technical services contract (for both assistance personnel and procurement services), and some short-term monitoring or consulting assistance. The Program Grant Agreement <u>per se</u> will include provisions for dollar disbursements made by the U.S. Government to the Government of the Republic of Mali.

1. <u>The Initial Program Disbursement</u>

As soon as the Program Agreements have been signed, financing will be made available for acquisition of goods and services necessary for the satisfaction of the conditions precedent for disbursements under the Budgetary Restructuring component as described above and for launching the Tax Reform component activities. The GRM will commit itself to providing to the tax administration the means necessary to cover the operating costs for the equipment financed by the Program as well as other operating costs (maintenance, vehicle expenses, etc.). The initial dollar disbursement to the GRM will be $880,000.

2. The Tranche Release Mechanism

Subsequent dollar disbursement for Tax Reform and for Budgetary Restructuring will be conditioned to the submission of evidence of the Government of Mali's progress in carrying out the economic policy reform program as described below. Central to the determination of whether conditions have been fulfilled will be a joint GRM/USAID annual review process.

a. GRM/USAID Joint Reviews

Evidence of progress will be gathered and evaluated on a continuous basis by the Program Coordination Unit as discussed in Section B above. Near the end of each calendar year, the GRM and USAID will meet to review and discuss the findings. Two series of review sessions will be held.

First, technical reviews will be held for each of the Program components. They will focus on problems and progress of the past year and will identify actions to be taken to resolve outstanding problems. Action plans already prepared by participating ministries or departments will be reviewed and discussed. Agreement will be reached on the specific measures which the GRM will undertake in the following year and which will be supported with EPRP financing.

Following the technical reviews, a Program review will be held. This will be chaired by the Minister of Finance or his designate and will include representatives of all participating agencies as well as USAID. The Program review will focus on overall implementation progress and on the impact of Program activities in improving the climate for private sector investment and employment generation and in restructuring the Government budget. The Program review participants will also review action plans and proposals made during the technical reviews.

The Program Coordination Unit will be responsible for planning and organizing all review sessions, including the preparation of background documents, special studies, and summaries of progress indicators as well as handling the logistics and management of the sessions. The PCU will involve short term technical assistance or local consultants as required. Following the completion of the reviews, USAID/Mali will make a determination that conditions for the particular tranche in question either have or have not been met and will move to disburse (or not disburse) EPRP funds accordingly. Specific conditions for disbursement are described by Program component in the sections which follow.

b. The Tax Reform Component

For this component, conditional financing is divided into three annual tranches:

Before the disbursement of each tranche of the tax reform component, an agreement will be established between the Ministry of Finance and USAID on a detailed plan of action, including, first, the tax reform measures which will be implemented in the coming year and, second, the measures to strengthen tax administration which will be carried out in the same period.

Table V.D.1 summarizes the measures to be implemented, the amount of financing which will be provided by EPRP, and the revenue gains expected to be generated through administrative improvements.

The total amount of each tranche will represent an annually-declining proportion of the estimated gross revenue loss resulting from reduced tax rates implemented as part of the Program. This financing will be disbursed according to an agreed-upon schedule. Unless the Government of the Republic of Mali and USAID agree otherwise, the proportions applied will be, respectively, 100 percent in 1986, 65 percent in 1987, and 35 percent in 1988. The remainder of the estimated shortfall will be covered by improved assesoments of the tax base and more effective action against tax evasion and fraud.

Before the disbursement of the first annual tranche of the tax reform support, the Commercial Code as well as the revision of the legislation and regulation applied to prices and external trade will have been approved by the Council of Ministers.

Before the disbursement of the second annual tranche of the tax reform, the Commercial Code and the legislative and regulatory changes regarding prices and external trade will have been approved by the National Assembly and adopted into law.

c. The Budget Restructuring Component

For this component, disbursements will be made in two tranches, conditioned upon improvements in control and the structure of expenditures.

A fundamental element in exercising such control is the determination of levels for new hiring. Assessment of the 1984 hiring practices and analysis of the budgetary implications of various levels of hiring indicate that a maximum level of approximately 1100 persons hired in 1987 and 800 in 1988 should generate budgetary savings of a significant magnitude and still permit the GRM to acquire a certain amount of new professional skills each year. This tentative ceiling has thus been included in the conditions precedent to disbursement stated below. However, the ceiling will be refined on an annual basis, taking more detailed account of the budgetary requirements for these new recruits. These requirements will be calculated to cover a full year's salary and will take into consideration the number of recruits by category, the average salary at the time of recruitment -- in index numbers, and the value of an index point.

Before the disbursement of the first tranche of the budget restructuring component, the first tranche of the tax reform funding will have been released. In addition,

- The payroll will have been completely computerized and all centrally-paid employees whose salaries are included in the national budget will be paid through the computerized system.

- The new budget coding and classification system will be in use both for receipts and expenditures.

Table V.D.1. Tax Reform : Revenue Shortfalls, Gains, and Program Financing (in Million U.S. $)

Policy Reform Action (a)	FY 1986	FY 1987	FY 1988	TOTAL
Revenue Losses:				
Reduction of minimum business income tax rate	--	-0.89	-0.97	-1.86
Reduction of top rate on business income	--	-0.73	-0.80	-1.53
Reduction of payroll tax	-2.00	-2.16	-2.33	-6.49
Realignment of customs rates	-0.56	-1.68	-1.68	-3.92
Total Expected Losses	-2.56	-5.47	-5.78	-13.81
Revenue Gains:				
Progressive elimination of administered prices	0.56	2.78	6.67	10.00
Fight against fraud	0.56	1.11	2.22	3.89
Advance payment of BIC	0.67	0.89	1.11	2.67
Administrative improvements	0.67	1.11	1.67	3.45
Total Estimated Gains	2.44	5.89	11.67	20.00
EPRP Support:				
Offsetting revenue shortfalls	2.56	3.55	2.02	8.14
Computerization support	(see Table G-2)		0.18	0.18
NET IMPACT ON GRM REVENUES	2.44	3.98	7.91	14.33

Exchange rate used: 450 franc CFA = $1 U.S.

(a) Only actions for which quantified estimates of gains or losses have been made are included here. See Annex E for more details.

- The program to privatize public enterprises will have been launched.

- The Ministry of Employment and Civil Service will present a plan, satisfactory to USAID, for managing the program of voluntary early departure.

- The BCEAO will present a detailed plan, acceptable to USAID, for managing the Feasibility Study Fund and the Credit Guarantee Fund in support of the GRM's voluntary early departure progam.

- The GRM will determine a ceiling, acceptable to USAID, for new recruitments into the Civil Service in 1987, taking into account recruitments by category, the average salary level (expressed in index numbers) of a new recruit, and the value of an index point. USAID has tentatively projected a ceiling of 1100 persons for 1987.

The GRM will also target improvements in the budget structure, acceptable to USAID, expressed in terms of budget indicators which will have been mutually determined, specifically dealing with the ratio between personnel expenditures and non-wage recurrent outlays. USAID has tentatively identified a materials/personnel expenditures ratio of 0.327 and 0.37 as acceptable ratios for 1986 and 1987.

Before the disbursement of the second tranche of the budget restructuring funds, the GRM and USAID will conduct a joint evaluation concerning the implementation of the Program and the effects of measures undertaken in the period covered by the preceding tranche. They will agree on the changes to be made in the conception of the Program component for the following period.

The Government of Mali will also :

- set a ceiling on new recruitments into the Civil Service for the coming year which is satisfactory to USAID, again taking into account recruitments by category, average salary levels for new recruits, and the value of the salary index point. USAID has tentatively projected ceiling levels for 1988 at 800 new entrants.

- Demonstrate effective control of expenditures in the preceding year and target improvements in the structure of the budget for the following years. This target should be expressed in terms of specific budget indicators dealing with the ratio between personnel expenditures and on-wage recurrent outlays. USAID has tentatively identified a ratio of 0.34 as an acceptable target ratio for 1988.

In addition, the GRM will agree to maintain the present policy with regard to non-tenured contractual employees in the public sector, that is, not assigning contractual employees to positions which could be occupied by civil servants and strictly limiting their numbers.

Table V.D.2. summarizes the indicative target levels for various indicators important to the overall budget restructuring effort as well as expected budgetary savings which will be generated by specific actions.

In order to ensure that these policy reform programs (which will not be directly financed with EPRP funds) are implemented in a timely way, the GRM and USAID will engage in continuous dialogue on overall progress. Where this is critical to the accomplishment of an EPRP objective, USAID will be asked to agree, as already noted, to plans for various phases of activity. The Treasury, for example, will be responsible for constituting the four funds required to implement the voluntary retirement program: the Severance Pay Fund, the Pension Fund, the Feasibility Study Fund, and the Credit Guarantee Fund. It will also provide for a Privatization Fund which will cover the costs involved with discharging employees from public enterprises which are being purchased by private sector interests or are being closed.

The Central Bank and the Ministries of State Enterprises, Plan, and Employment will be responsible for planning and facilitating the sale of various public enterprises to private buyers.

Table V.D.2. Budget Restructuring: Annual Targets and Net Budgetary Impact

Policy Reform Measures	FY 1986	FY 1987	FY 1988	TOTAL
Recruitment ceilings:				
Target level	n.d.	1100	800	
Net present value of budgetary savings (1987 - 2000) at 10 % (millions U.S. $)				$53.6
Potential impact on nonwage recurrent expenditures (millions U.S. $)	--	+ $0.4	+ $ 1.4	
Voluntary early departure program:				
Target level	264	396		600
Net present value of budgetary savings (1987 - 2000) at 10 % (millions U.S. $)				$ 8.5
Potential impact on nonwage recurrent expenditures (millions U.S. $)	- $ 2.2	-$ 3.7	+ $ 1.6	
Combined effect of budgetary savings and EPRP financing on materials/personnel ratio:				
Baseline ratio	0.324	0.35	0.30	
Increase due to measures	0.003	0.02	0.04	
Target Ratio	0.327	0.37	0.34	

Source: Annex D tables.

E. Program Evaluation

Following the recruitment of the interim PCU Director, the PCU will develop a detailed Monitoring and Evaluation Plan for the EPRP. This plan will include the following:

- identification of the process and impact indicators and the data to be collected for monitoring and evaluation purposes as well as the methods to be used for its collection and analysis (the preliminary list is found in Section IV on Program Impact above);
- baseline information on the indicators selected; and
- description of the format, content and timing of reports to be used in the monitoring, review and evaluation of program progress and the inputs to be provided by participating GRM agencies.

1. End-of-Program Evaluation

Approximately six months prior to the end of the program, an end-of-program evaluation will be conducted by outside evaluators with financing available through PM & R or other projects. The evaluation will focus on measuring both process and impact indicators and, if the evaluation indicates it is warranted, on developing specific recommendations for a follow-on policy reform program.

The evaluation will be planned and coordinated by a joint USAID/PCU team, immediately following the last joint GRM/USAID review session (i.e., after the disbursement of the third Tax Reform tranche). The evaluation should:

- summarize the results of the annual joint review sessions; examine the record, assessing their effectiveness in resolving problems, measuring progress toward Program objectives, and setting out valid action plans for the following year;

- analyze the effectiveness of the Program Coordination Unit as a mechanism for sustaining policy dialogue and for monitoring and evaluating progress;

- assess the phasing of policy reform actions: what went as planned, where delays occurred, and what remedial actions could/should have been taken; and

- provide a detailed macroeconomic update, particularly focussing on structural change throughout the Program life; roles and interventions of other donors should be fully taken into account.

2. Applied Studies

The GRM is gradually closing off the public sector as a major source of employment for Mali's newly-educated population. The need for private sector expansion to absorb Mali's exploding working age population is a major concern for the GRM's economic policy reform efforts. The EPRP is based on the premise that such an expansion will require an improved policy and institutional environment, including tax and regulatory reform.

Most observers familiar with Mali's history agree that the climate for achieving policy and institutional reform has never been better. They also agree that it is important to make the best of this "window of opportunity" while trying to avoid costly errors that might narrow or close the window.

Two points warrant emphasis in this regard. First, the process of policy and institutional reform is not well understood. There is little empirical evidence upon which impacts of specific changes can be confidently predicted -- much less those which are expected to result from the interactions of several changes. Second, while the planned reforms are necessary, they are far from sufficient conditions for stimulating private sector growth and employment creation.

A learning-by-doing approach to implementation will, therefore, be followed. The annual USAID/GRM joint review process will be an important element in this approach. Each year there will be a formal opportunity to discuss progress to date and to lay out the next year's activities in full awareness of the progress made. The PCU has been charged with arranging for needed studies and analyses to be carried out in preparation for these reviews. The financial resources available to the PCU for this purpose will, however, be limited. USAID/Mali will, therefore, seek support for applied research and policy analysis from AID central projects, namely, those in ST/RD having to do with institutional development and the regional Sahel Policy Analysis project.

Two possible studies are described below as indicative of the kinds of applied research which would inform USAID/Mali as well as other Missions venturing into the program grant approach to institutional change. The first proposal is for a study to examine the impact of overregulation on the growth of the private sector and the second is for a complementary study on impact of Mali's underdeveloped court system.

a. Overregulation

As described above, the legal and regulatory systems that have been established in Mali for controlling the economy are so complex, pervasive and cumbersome that they are not well understood either by those who administer them or by the private sector. The resulting uncertainty has led to highly arbitrary application of regulations and the establishment of elaborate informal systems for avoidance and circumvention. They have raised significantly the cost of business formation and transactions. They have also discouraged investment in Mali.

While some progress will have been made with the passage of the new Commercial Code, much will remain to be done. However, further progress will require a much better understanding of state regulations and their enforcement as well as the response systems that have been developed by the private sector. Thus, a study will be undertaken to generate needed information. Because of the complexity of the regulatory systems and the extralegal and subtle nature of the coping systems that have evolved, a long term (18-24 months) study employing anthropological data collection techniques will be necessary.

The study will include: (1) periodic intensive interviews with a stratified sample of civil servants who have retired from the Civil Service through the Voluntary Early Departure (VED) program and who plan to establish businesses (whether or not they participate in the Loan Guarantee program) and stratified control groups outside the VED program; (2) significantly less frequent extensive interviews with a larger stratified sample of the remaining VED program participants. The purpose of the extensive interviews will be to expand the size of the sample to increase the validity of the findings from the intensive interviews to focus increased attention on impact measurement. The two survey techniques will be complementary, with each informing the other.

The design of the study will be prepared with the assistance of an institutional economist familiar with Francophone institutional arrangements (legal and regulatory systems and their administration) as they apply to the private sector. He will also provide technical backstopping for the study through periodic visits to Mali. The actual study will be carried out by a study team which will include an ABD candidate from a U.S. university in the field of institutional economics or economic anthropology. He will be joined by two or three Malian graduates from the National School of Public Administration (ENA).

b. The Underdeveloped Court System

Mali's court system appears unable to effectively arbitrate and enforce property rights and to protect individuals and corporations against the violation of contractual arrangements by one of the parties. This system increases risk and uncertainty in the business environment and, therefore, the cost of doing business in Mali. The lack of a specialized court for handling commercial matters adds further to transactions costs. The situation is exacerbated by the lack of trained personnel to staff such courts and to provide legal services for those wishing to go to court to resolve their problems. The critical nature of the situation cannot be overemphasized. Modern economic systems cannot evolve except under the rule of laws that are fairly applied and enforced.

Notwithstanding the importance of the court and enforcement mechanisms, information about them is largely anecdotal. If reform is to occur, as it must, we must expand our knowledge of these systems in order to effectively support their reform.

Toward this end, a short-term study will be undertaken of Mali's court and enforcement systems. This study will be initiated after the conclusion of the study of egulations as the findings of that study will provide a major input for the design of the study of the court system.

The latter will focus on both structural and administrative issues relevant to the private sector. It will be designed and carried out with the assistance of a specialist in development law. It is estimated that the study will require three person-months to design and implement. Funding for both studies will be requested under the recently authorized Sahel Policy Analysis Project.

F. Financial Plan

Table V.F.1 shows the schedule of obligations of funds for the Economic Policy Reform Program and their uses. A total of $18 million is planned for dollar disbursements, of which approximately $16.7 will offset GRM local currency expenditures and an additional $0.3 million will be used for local procurement of commodities and services.

Table V.F.1. FINANCIAL PLAN FOR
USAID/Mali Dollar Disbursements

U.S. $'000

Budget Category	FY 1985	FY 1986	FY 1987	FY 1988	TOTAL
Tax Reform	--	2560	3555	2200	8315
Budget Restructuring	880	2700	4785	--	8365
Commodity Procurement	350	90	50	--	490
Technical Assistance	30	540	200	--	770
Training	20	20	20	--	60
TOTAL	1280	5910	8610	2200	18000

1. Initial Disbursements

The initial disbursements for the EPRP will be made in two ways:

- upon signature of the Program Agreement, the U.S. Treasury will transfer $880,000 to the U.S. correspondent bank of the Government of Mali's choice; and

- upon (simultaneous) signature of the Short Form Program Agreement, USAID/Mali will secure an IQC and/or an 8(a) contract for technical assistance and procurement services in the area of computerization.

The GRM signature on these Agreements will signal its commitment to carrying out the series of policy reforms specified in this PAAD, but neither of these disbursements will be conditioned upon any specific policy reform action.

2. Conditional Disbursements

Once the conditions for tranche release for each component of the EPRP have been fulfilled, the disbursement mechanism is straightforward. USAID/Mali will request the Treasury to transfer to a U.S. bank of the GRM's choice the agreed-upon amount of dollars. The GRM will manage the local currency as it chooses, ensuring, however, the presence of adequate funds for use in restructuring of the national budget as described above and for (1) offsetting revenue shortfalls, and (2) costs of improved tax administration.

The GRM will be expected to provide evidence of expenditures of the budget restructuring funds through the materials account of the national budget on an annual basis.

3. The GRM Special Accounts

The GRM will also certify as to the status of its use of its own budgetary resources in three (or five) special purpose funds at the BCEAO for carrying out a personnel reduction program along the lines indicated in Annex H. Expenditure from all GRM special funds, except for the Tax Account, will be reviewed in the technical review for the budget restructuring component of the Program as progress on implementation of the program supported with these funds will be an important complement to the overall budget restructuring effort supported by the EPRP. An estimate of the GRM expenditure of local currency resources related to each of the Program components and for the Program Coordination Unit is given in Table V.F.2.

4. Method of Implementation and Financing

Method of Implementation	Method of Financing	Approximate Amount (000)
1. Dollar disbursement for Tax Reform	Direct Transfer to GRM's bank account in New York	8315
2. Dollar disbursement for Budget Restructuring	Direct transfer to GRM's bank account in New York	8365
3. Commodity Procurement	Bank L/Com	490
4. Technical Assistance	Direct L/Com	770
5. Training	Direct Reimbursement	60

G. Other Donor Coordination

Many other donors are active in Mali and many are supporting projects and programs which are complementary to the EPR Program components. The monetary and budgetary interventions of the IMF have been noted at several points in the narrative; similar mention has been made of the public enterprise reform program of the World Bank. Less attention has been drawn to the small and medium enterprise-oriented credit activities of the World Bank and the German organization, KfW, and to the small and medium scale enterprise support project just being developed by the European Economic Community.

Table V.F.2 GRM Expenditures Facilitated By EPRP Dollar Disbursements

Millions of Francs CFA

Budget Category	FY 1985	FY 1986	FY 1987	FY 1988	TOTAL
A. Tax Reform (a)	0	1,100	1,789	3,560	6,449
(1) Expected Revenue Loss(b)	0	-1,152	-2,460	-2,600	-6,212
(2) EPRP Offset of Loss(c)	0	1,152	1,599	910	3.661
(3) Potential Grains from Administrative Improvements	0	1,100	2,650	5,250	9,000
B. Budget Restructuring	398	1,215	2,153	81	3,848
C. Program Coordination Unit Support	0	48	48	48	144
TOTAL	398	2,363	3,990	3,589	10,441

(a) This line is the sum of the following three.
(b) See Annex E for details of this estimation.
(c) Dollar disbursements will be provided by EPRP to offset estimated losses on a declining basis: 100 % in 1986, 65 % in 1987, and 35 % in 1988.

1. Complementary Technical Assistance and Project Support

In addition to the general complementarity just mentioned, it is useful to note specific instances of technical assistance and project support being supplied by other donors which are likely to be important to the overall GRM capability to implement the policy reform program:

- the International Monetary Fund's continued technical assistance in the Bureau of the Budget in the Ministry of Finance will be helpful in installing and effectively using the new budget coding and classification system;

- the possibility of the IMF providing technical assistance to the Internal Revenue and Customs Departments is attractive both to the GRM (particularly for the development of the new taxe sur taxe approach which is scheduled) and to USAID/Mali in that it will contribute to a more timely implementation of the reform measures;

- the technical assistance which will be provided by the World Bank to help develop the details of the public enterprise reform program before the project is actually signed will facilitate the GRM activities in privatization of selected enterprises;

- the commodity and technical assistance provided by French Cooperation (FAC) for computer facilities in the Ministry of Finance (Treasury) will be, as is discussed in Annex G, critical to the implementation of an effective automation plan (both for Budget and for the Payroll Office);

- the continued support of the UN Development Program (UNDP) to the National Commission for Administrative Reform will be important in ensuring continued emphasis on the development of an overall public manpower plan (through the cadres organiques) and to the implementation of an employment policy; and

- the continued technical assistance from UNCTAD in price analysis and the development of new pricing regulations will be helpful.

2. Complementary Conditionality

While many of these other donors have developed programs which are subject to conditionality, none of the conditions in any of the programs mentioned above are in conflict with those proposed for the EPRP. Indeed, there is great complementarity between the conditions and covenants included in the EPRP design and those in other programs (e.g., with the IMF on control of new recruitment into the Civil Service, with UNCTAD on the need for new price regulations, with the World Bank on closing or privatizing a number of money-losing public enterprises).

3. Multidonor Dialogue

To ensure that this complementary situation is sustained and in fact enhanced by new investments, USAID/Mali will undertake to stay abreast of other donors' thinking and actions in the policy reform arena. The UNDP is presently organizing a Round Table for December. The preparation of this event gives us substantial opportunity to interact in depth with other donors on issues of critical interest to all of us. In addition, USAID/Mali continues to participate in the Cereals Marketing Restructuring Project and to meet regularly in policy dialogue with all the donors noted above.

The size of Bamako facilitates this kind of interaction.

VI. CONDITIONS PRECEDENT AND COVENANTS

In addition to the standard Conditions Precedent (legal opinion, specimen signatures, and designation of authorized representatives), the following cnditions precedent and coveuants will in substance be included in the Program Grant Agreement.

A. First Disbursement

Prior to the first disbursement under the Grant, or to the issuance by AID of documentation pursuant to which disbursement will be made, the Grantee will, except as AID may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID:

- Evidence that quarters have been established in the Ministry of Finance for the Program Coordination Unit (PCU).

- Evidence that two qualified Malians have been designated to work collaboratively with one expatriate adviser in the PCU; they will be assigned for a period of up to three years.

- A statement designating the bank and account number into which disbursement is to be made.

The GRM will also, at the time of signing the Program Agreement, sign a Short Form Grant Agreement which will provide for the services of an expatriate technical consultant to assist the Program Coordination Unit and arrange for the procurement of a specified list of goods and services related to the computerization of specified functions in the Ministry of Finance, the National Commission for Administrative Reform, and the Ministry of Employment and Civil Service. The conditions stated above will also be conditions precedent to the Short-Form Program Agreement.

B. Additional Disbursements

1. Tax Reform: The "First Component"

Before the release of the first tranche of funds for the first component of the program, the GRM will:

- Present evidence of Council of Ministers' approval of revised texts, by decree or otherwise, of the Commercial Code, the regulation of prices, and the control of external trade.

- Furnish a three-year action plan for conducting tax reform in Mali and a detailed action plan, acceptable to USAID, for the first year of tax reform activity. This one-year plan should include estimations of possible revenue shortfalls and gains likely to be realized as a result of implementation of the plan.

Before the release of the second tranche of disbursements relating to progress on tax reform measures, the GRM will provide evidence of legislative enactment of regulatory texts regarding pricing and external trade as well as the revised Commercial Code.

Before the release of the second and third tranches of funds for the first project component, USAID and the GRM will jointly review the results of the previous year of tax reform and adjust the funding programmed for the succeeding year as needed. The process of review and Program target revision is described in Annex I.

In sum, before each tranche of dollar disbursements related to tax reform, the GRM will:

- Present written evidence of the estimated revenue loss realized in the previous year due to the implementation of the program and of estimated revenue gains made due to improved tax administration.

- Present a detailed action plan for the succeeding year of tax reform activity.

- Demonstrate satisfactory progress in implementation of the preceding year's program.

B. Budget Restructuring: The "Second Component"

Before the release of grant funds for the first tranche of the second program component, the GRM will:

- Fulfill all conditions precedent for the first tranche of the first component.

- Computerize the payroll; demonstrate that all centrally-paid government employees have been, and are being, paid through the computerized system.

- Put the new budget account classification system in operation for receipts as well as expenditures.

- Present evidence of having launched the privatization of public enterprises.

- Develop detailed administrative arrangements governing the voluntary retirement program; the Ministry of Finance, the Ministry of Labor and Civil Service, and USAID will agree as to feasiblity of implementation.

- Develop detailed arrangements for the functioning of the Feasibility Study Fund and the Credit Guarantee Fund; the Ministry of Finance, BCEAO, and USAID will have agreed as to feasibility of implementation.

- Determine a ceiling, acceptable tc USAID, for new recruitments into the Civil Service in 1987. This ceiling will take into account recruitments by category, the average salary level (expressed in index numbers) of a new recruit, and the value of an index point. USAID has tentatively projected a ceiling of 1100 for 1987.

- Target improvements in the structure of the budget, acceptable to USAID, expresssed in terms of budget indicators hwich will have been mutually determined. USAID has tentatively identified materials/personnel expenditures ratios of 0.327 and 0.37 as acceptable ratios for 1986 amd 1987.

Prior to the release of the second tranche of the second component, the GRM and USAID will jointly evaluate the implementation and impact of measures included in the second component for the period covered by the first tranche. They will agree upon any necessary modifications in the component design for the following period. In addition, the GRM will:

- Determine a ceiling, acceptable to USAID, for new recruitments into the Civil Service for 1988, which takes into account recruitments by category, the average salary level (expresssed in index numbers) of a new recruit, and the value of the index point. USAID has tentatively projected ceiling levels for 1988 at 800 new entrants. This level will be modified in light of budgetary information, if necessary, as it is desired that the ceilings established result in long-term budgetary savings to the GRM.

- Target improvements in the structure of the budget, acceptable to USAID, expressed in terms of specific budget indicators which will have been mutually determined. USAID has tentatively identified a materials/personnel expenditures ratio of 0.34 for 1988 as acceptable ratios.

C. Special Covenants

Except as the Parties may otherwise agree in writing, the Grantee covenants that it will, throughout the duration of the Program:

- Assure the presence of adequate technical expertise in the Department of Internal Revenues and the Customs Service to monitor the results of the proposed tax reform activity.

- Maintain its policy of not recruiting contractual employees in those categories and otherwise strictly limiting personnel recruitment .

- Assure that funds for (a) the privatization of of public enterprises and (b) general budgetary support have been used for the purposes intended (that is, severance pay, pension guarantees, credit guarantees, and feasibility study financing).

- Assure the assignment of the same personnel to the PCU for the duration of the Program as far as possible; AID will agree as to changes which may be necessary.

- Establish a program for publicizing regulatory or administrative changes enacted with respect to the Commercial Code, price regulation, and tax reform. In addition to normal mass communication channels, direct communication channels with interested groups should be encouraged and used.

- Establish procedures (in addition to automation of the payroll) to ensure that civil servants leaving the Civil Service through the Voluntary Early Retirement Program are not rehired into Government service.

- Allocate to the PCU adequate powers for the monitoring and evaluation of the Program. Except as otherwise agreed in writing, "evaluation" will include: (1) evaluation of progress towards attainment of program objectives; (2) identification and assessment of problem areas or constraints which may inhibit such progress; and (3) to the extent feasible, an evaluation of the overall impact of the program at its conclusion.

PROGRAM: MALI

AGENCY FOR INTERNATIONAL DEVELOPMENT
ACTIVITY DATA SHEET

CP 81-05 (4-85)

TITLE	FUNDING SOURCE	PROPOSED OBLIGATION (In thousands of dollars)	
Mali Economic Policy Reform Program	Economic Support Fund	FY 85 18,000	LIFE OF PROJECT (Auth.) 18,000
NUMBER 688-0240 GRANT [X] LOAN [ ] NEW [X] CONTINUING [ ]	PRIOR REFERENCE None	INITIAL OBLIGATION FY 85 / ESTIMATED FINAL OBLIGATION FY 85	ESTIMATED COMPLETION DATE OF PROJECT FY 88

Purpose: To support the Government of Mali (GRM) in implementing policy reforms aimed at: (1) providing an environment conducive to expanded private sector growth and employment; and (2) reducing the burden of the public sector on the economy while increasing its efficiency.

Background: Following independence, the GRM implemented a state-led development strategy to achieve its objectives of rapid industrialization and modernization. Policy mechanisms chosen for achieving these objectives were the creation of state enterprises and the rapid expansion of public administration to manage the economy and provide expanded services in education, agriculture, and health. A wide array of regulations were put in place to control prices, markets, and the conduct of business. To finance the growing public sector, taxes literally confiscatory in nature were levied on business and commercial agricultural production; low food crop prices were imposed on producers. The outcome of this policy framework was, however, costly failure rather than dynamic growth and development. Public enterprises generated enormous losses, public expenditures outran public revenues, private sector initiative was stifled, and the public sector's capacity to deliver services effectively diminished as a growing wage bill consumed a disproportionate share of budgetary resources.

In the early 1980's, the GRM developed a program of economic policy reform to address this situaton. Public enterprises were slated for rehabilitation, privatization, or closure; budgetary controls were adopted in a Stand-By Agreement with the IMF; steps were taken to improve the climate for private sector development (liberalization of grain markets, re-examination of tax structures, drafting of new regulations regarding commerce); and, in 1983 and 1984, restrictions on recruitment into the Civil Service were implemented.

Program Description: Under this program, A.I.D. will provide the GRM with financial support, equipment and technical assistance in exchange for the following reforms: (1) tax reforms involving reductions in tax rates, measures to improve tax administration, and revision of customs tariffs to reduce tax-related disincentives to local processing activities; (2) reduction of price controls and enactment of a liberalized Commercial Code, leading to a lightening of administrative control on commerce and industrial activities; (3) restructuring of budgetary expenditures, reducing expenditures on personnel relative to outlays on materials and other nonpersonnel operating cost items thereby improving delivery of essential government-provided services ; and (4) public enterprise reform including the privatization or closure of selected public enterprises. Program support for tax reform will help offset temporary tax revenue shortfalls related to tax reform, while program support promoting budget restructuring will result in reduction of personnel outlays relative to materials and other nonpersonnel operating expenditures.

Relationship of Program to A.I.D. Country Strategy: The project supports major elements of A.I.D.'s country development strategy for Mali, namely: assisting the GRM's policy reform program and promoting private sector development.

Beneficiaries: The majority of Mali's population will, as a result of reforms encouraged by this project, ultimately experience expanded employment opportunities, lower tax rates or improved services delivery.

Host Country and Other Donors: The GRM will finance the personnel reduction costs involved in its budget restructuring program. Assistance to complementary reform programs is being provided by the UNDP, IBRD, France and the E.E.C. Assistance to the tax reform program will be provided by the IMF, France and the UNDP.

Major Outputs	All Years
Improved Tax Structure and Administration	X
Budget Restructuring	X
Deregulation of Internal/External Trade	X
Price Decontrol	X
Improved Civil Service Efficiency	X

A.I.D.-Financed Assistance	Life-of-Project ($ thousands)
Dollar disbursements to the GRM associated with tax reform measures and budget restructuring	16,680
Equipment (microcomputers)	490
Technical Assistance	770
Training	60
TOTAL	18,000

U.S. FINANCING (In thousands of dollars)	Obligations	Expenditures	Unliquidated
Through September 30, 1983	0	0	0
Estimated Fiscal Year 1984	0	0	
Estimated Through September 30, 1984	0	0	
		Future Year Obligations	Estimated Total Cost
Proposed Fiscal Year 1985	18,000	0	[illegible]

PRINCIPAL CONTRACTORS OR AGENCIES

To be determined.

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ANNEXES

A. Letter of Request for Assistance

B. Statutory Checklist

C. Initial Environmental Examination

D. Analytical Model of the Government of the Republic of Mali Budget

E. Tax Reform Analysis

F. Institutional Analysis and Bibliography

G. Computer Support and Other Commodities and Services

H. The Government of the Republic of Mali Personnel Reduction Program

I. Program Coordination Unit

J. Draft Program Agreements

K. Design Team

L. PAIP Approval Cable

3(A)2 NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. <u>GENERAL CRITERIA FOR NONPROJECT ASSISTANCE</u>

1. <u>FY 1985 Continuing Resolution Sec. 525; FAA Sec. 634A; Sec. 653(b).</u>

   (a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that amount)?

   (a). Congressional Notification submitted on July 26, 1985.

   (b). Not applicable.

2. <u>FAA Sec. 611(a)(2).</u> If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

   Agreement by Government of the Republic of Mali Council of Ministers (on July 17, 1985) to Program description in which need for legislative action on Commercial Code, pricing regulations, and regulations of external trade was clear.

3. FAA Sec. 209 Is assistance more efficiently and effectively given through regional or multilateral organizations? If so, why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs.

No. U.S. assistance in this case has been designed with full cognizance of complementary assistance being provided by other organizations, both bilateral and multilateral. U.S. resources will be additive to those provided by other organizations.

4. FAA Sec. 601(a) Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade: (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

The primary objective to be served by the Economic Policy Reform Program is to foster private sector initiative and competition. The reforms to be undertaken will also reduce regulation of internal and external trade (and may increase the volume of trade). In addition, planned deregulation and tax rate reductions will strengthen the technical efficiency of industry in Mali, as well as increase local competition.

5. FAA Sec. 601(b) Information and conclusion on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

By reducing barriers to private investment, the planned policy reforms will improve the environment for foreign as well as domestic investment. Moreover, private U.S. firms will participate in the Program by providing needed technical assistance and commodities.

6. FAA Sec. 612(b), 636(h); FY 1985 Continuing Resolution Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign

Not applicable.

currencies owned by the U.S. are utilized in lieu of dollars.

7. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

   No.

8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

   Yes. Efforts will be made to seek involvement of small and disadvantaged businesses and women-owned businesses by carrying out 8(a) procurement procedures involving limited competition

9. FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?

   Not applicable

10. FY 1985 Continuing Resolution Sec. 536. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?

   No.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

   a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the extent possible, does it reflect the policy directions of FAA Section 102?

   Yes.

b. <u>FAA Sec. 531(c).</u> Will assistance under this chapter be used for military, or paramilitary activities?	No.
c. <u>FAA Sec. 534.</u> Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives?	No.
d. <u>FAA Sec. 609.</u> If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?	Not applicable.

2. <u>Nonproject Criteria for Development Assistance</u>

a. <u>FAA Sec. 102(a); 111; 113; 281(a).</u> Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level; increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage	(a) Tax reforms supported by the EPRP will encourage more labor-intensive production in Malian enterprises. (b) Other reforms will have a positive impact on overall efficiency of private and public sector service delivery and will improve the climate for private sector expansion.

democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: (include only applicable paragraph which corresponds to source of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source.)

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, full account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value, improvement of planning, research, and education with respect to nutrition, particularly with

Not applicable.

reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

(2) [104] for population planning under sec. 104(b) or health under sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems and other modes of community research.

Not applicable.

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of

Assistance will be provided to increase the effectiveness of public administration in Mali by ensuring that the Government budget is restructured in such a way as to provide civil servants with adequate working materials for effective performance of their duties.

institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people in developing countries in such disciplines as are required for planning and implementation of public and private development activities.

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is: (i)(a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of geological and geophysical survey work to locate potential oil, natural gas, and coal reserves and to encourage exploration for potential oil, natural gas, and coal reserves.

Not applicable.

(ii) technical cooperation and development activities, especially with U.S. private and voluntary, or regional and international development, organizations;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster;

(v) for special development problems, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(vi) for special development especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

(5) [107] is appropriate effort placed on use of appropriate technology? (Relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor.)

Not applicable.

c. FAA 118(c) and (d). Does the assistance comply with the environmental procedures set forth in AID Regulation 16. Does the assistance take into consideration the problem of the destruction of tropical forests?

Yes.

d. FAA Sec. 281(b) Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

Yes. The planned policy and institutional reforms will expand opportunities for individual initiative in Mali. Moreover, by training public sector personnel in the effective use of computers, their overall productivity will be enhanced.

e. FAA Sec. 122(b) Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

ANNEX C

INITIAL ENVIRONMENTAL EXAMINATION

Country: Republic of Mali

Project Title: Mali Economic Policy Reform (688-0240)

Funding: Life of Project Funding - $18,000,000 (ESF)

Period of Project: 3 years (8/85 - 8/88)

Activity Description: The purpose of the EPRP is twofold; first, to support the Government of the Republic of Mali in its efforts to provide an environment conducive to increased growth and employment in the private sector; and second, to reduce the burden of the public sector on the economy while increasing its efficiency. The program consists of: (1) tax and regulatory reform to provide more incentives for expansion of the private sector, and to reduce incentives for evasion, fraud and regulatory abuse; and (2) budget restructuring to reduce expenditures on personnel and increase expenditures on priority materials and equipment to improve the efficiency of public sector employees.

Environmental Action Recommended: Categorical Exclusion in accordance with Reg. 16, Section 216.2(c)(1)(i). The action does not have an effect on the natural or physical environment. BS

IEE Prepared by: Emmy B. Simmons, Agricultural Economist, USAID/Mali

Bureau Environmental Officer's Determination

Approved Bessie L. Boyd
Bessie L. Boyd, AFR/TR/SDP

Disapproved ________________

Date 8/14/85

Clearances:

GC/AFR: Anthony Vance

ANNEX D

ANALYTICAL MODEL OF THE GRM BUDGET

A. Introduction: the Budgetary Problem

The purpose of the Economic Policy Reform Program (EPRP) is to support the Government of the Republic of Mali (GRM) in its implementation of structural reform measures which will have the effect of improving both the climate for private sector investment in the economy and the effectiveness and efficiency with which public services are delivered. Both sets of measures have significant impacts on the GRM budget, which need to be quantified in advance of program implementation, for negotiation and program planning purposes.

Tax reform and restructuring of the Government budget are two principal means for achieving the GRM objectives outlined above, and are, therefore, the two major components of the Program. Tax reform and its impact on budgetary revenues are dealt with in Annex E. The concern of the present annex is with expenditure restructuring. The budgetary problem stems in part from the weight of personnel expenditures vis a vis those on equipment, supplies, and other materials with which to work. The ratio of non-wage recurrent outlays to personnel expenditures (roughly constant at 0.30 in the past five years) is relatively low compared to most other countries, including countries with economic structures similar to Mali. Coupled with anecdotal evidence on how shortages of supplies hamper government workers' abilities to do their jobs well, the low level of the ratio indicates strongly that to improve the cost-effectiveness of Government operations, expenditures on non-wage goods and services relative to outlays on wages should be raised significantly.

While the two Program components can be discussed separately, as they will be separately managed in practice, it should be recognized that there is substantial interaction between them. Taxes, after all, account for the major part of national budget revenues; both the amount of revenues and the way they are spent have a direct influence on the quality and efficiency of public sector service delivery. Alteration of the balance between personnel expenditures and non-wage expenditure, for example, is virtually impossible to achieve if revenues are stagnant and new civil servants are recruited; expenditures on non-wage goods and services are, in this situation, forced to shrink or the government deficit to grow.

Analysis of the tax situation and the design of the EPRP support for tax reform results in a projection, with reference to the current trend line, of likely revenue-neutrality or even a slight revenue gain over the three year period covered by the Program. This relatively straightforward projection is discussed in detail in Annex E. Analysis of potential EPRP impact on budget restructuring is more complex. First, there are several variables to take into account in projecting personnel expenditures and, second, all of these variables are highly sensitive to political decisions which are continuously being made. In order to capture the combined impact of these multiple factors, a budgetary projections model was developed to explore the conditions for attaining a sustainable increase in the non-wage "materials" expenditures compared to those on personnel. This model is described and the results presented in the sections which follow.

B. The Model and How it Works

The model is divided into three parts:

- the first specifies all the factors affecting the growth of personnel expenditures;
- the second permits the user to propose several alternative levels for each of the factors; and
- the third calculates, on an annual basis, the costs of alternative sets of measures and their impact on the ratio of non-wage expenditures to personnel expenditures.

The key assumption is that non-wage expenditures on goods and services used by civil servants in the performance of their jobs (called "materials" expenditures here for convenience) are determined as a residual. Prospective revenues, grants, and borrowing are taken to constitute "revenue." Projected non-wage expenditures on investment, debt servicing, subsidies and transfers as well as personnel expenditures are then deducted from revenues to leave an amount for materials.

The model was developed with data from the 1980-84 period. Initial trends were projected from this base to develop a 1985-2000 "baseline case", that is, what would be likely to occur in the absence of policy change or other intervention. Certain judgments were exercised in the 1985-2000 baseline case projection.

First, it was assumed that budgetary resources in Mali are limited and will continue to be so. The growth of tax and nontax revenues in effect puts a lid on overall expenditures, given that the GRM cannot obtain foreign grants and concessional loans for budget support purposes in unlimited amounts and can borrow only within Central Bank (BCEAO) and IMF-determined (assuming a new Stand-By Agreement) limits from the domestic banking system. Moreover, it is assumed that the GRM has to amortize its domestic and foreign debt according to schedule and can no longer accumulate external and domestic payment arrears as it has done in the past. The rates assumed (nominal terms) for these parameters are, therefore: 7.5 percent per year for revenue growth; external grants and borrowing, 5 percent per annum; and borrowing from the banking system, 7 percent. In fact, the revenue growth assumptions may have to be qualified somewhat in the final runs of the model to allow for the revenue impacts of the tax reform measures discussed in Annex E.

Second, it was assumed that personnel outlays are in part already pre-determined, that is, largely determined by the number of people reaching retirement age and the average size (typically about 2 to 2.5 percent per year) of the annual merit/seniority pay increase obtained by the majority of civil servants. Further, a recruitment ceiling of 1400 new hires (the 1984 intake) was assumed. These factors plus a probability that wage rates will be increased in response to rising costs of living led to an assumed 9.5 percent growth rate for personnel expenditures each year. It was also assumed that the GRM will not incur domestic arrearages which include late wage payments. Any domestic arrearages are attributed to suppliers of nonwage goods and factor services.

Third, an assumption had to be made with regard to subsidies and transfers. The trend on subsidies and transfers between 1981 and 1984 is a declining one (in nominal terms). Several arguments for continuing this declining trend can be made, among them (a) the fact that policy decisions have been made to reduce public enterprise losses and outlays on subsidies to these enterprises should fall even further and (b) the observation that, with public sector job openings declining, scholarship allocations (a major transfer element) could decline. However, this declining trend is not retained in the model. After several years of negative growth, it would seem that this category of expenditure should be expected to stabilize in real terms. A 7 percent rate of growth in nominal terms has thus been assumed.

Fourth, military expenditures are expected to grow at a given percentage rate per year (10 percent) as no information was available on this sector.

Given these assumptions, the base line trend for the ratio of materials to personnel expenditures is calculated (Table D-1). The ratio recovers from its low level of 0.27 in 1985 to 0.324 in 1986 (the exceptionally low 1985 ratio can be attributed largely to the unexpected 10 percent increase in salaries announced on January 1 for 1985 after a three year wage freeze). This (temporary) recovery to a level higher than that maintained in the 1981 to 1984 period is attributable not only to the lower (assumed) growth rate in wages but also to the somewhat lower foreign debt service projected for 1986. The ratio continues to increase in 1987 but from this point onwards begins to fall, reaching 0.27 again in 1990, and declines still further thereafter (see Table D-4). If the assumptions are correct, this finding indicates seriously adverse conditions for the efficiency of public service delivery will continue in the absence of policy change.

C. Using the Model

1. Effects of the GRM Personnel Reduction Program

The GRM's proposed personnel reduction program is described in detail in Annex H. A principal aspect of this program, which can be examined readily using the model, is the projected early retirement of 204 civil servants in 1986 and 396 in 1987.

Results of a financial analysis of the potential returns to the GRM of a program which offers 4 million FCFA in severance pay and approximately 900,000 FCFA in pension benefits to a civil servant of Category A (the highest qualifications category), 2.5 million FCFA in severance pay and approximately 600,000 FCFA in pension benefits to a civil servant in Category B, and 1.7 million FCFA in severance pay and 415,000 FCFA in pension benefits to someone in Category C, are presented in Table D-2. The analysis shows that the discounted benefit to cost ratio (discounting benefits and costs at 10%) of such a program will be about four to one. Inspection of the time streams of financial costs and benefits presented in Tables D-2 and D-4 shows that in absence of outside funding, the GRM would have to incur a significant worsening of the materials/personnel ratio as the severance pay payments are made in 1986 and 1987, but could anticipate a substantial improvement in the ratio once the savings of 600 salaries began to make themselves felt from 1988 onward (Table D-4).

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A voluntary early departure program involving 600 people will result in an estimated budgetary savings on personnel of 734 million FCFA per year in 1988 and would permit materials expenditures to increase by 833 million FCFA in 1990. The savings on personnel outlays (732 million FCFA in 1988), grows at about 7.5% per year in subsequent years. The materials/personnel expenditure ratio would be about 7 percent higher in 1988 and in each subsequent year than would otherwise be expected (based on a comparison with the baseline time path of the ratio). If the voluntary early departure program is combined with other measures limiting personnel expenditures in future years (principally restricting recruitments), the improvement in the ratio is even more marked. The combined effect of implementing the VED program and recruitment restrictions permits a 21 percent improvement in the ratio of materials/personnel expenditures over the baseline case level in 1990.

2. The Effect of the EPRP Grant

Superimposing the possibility of the EPRP grant on the voluntary early departure program allows more favorable levels of materials expenditures to personnel outlays to be achieved earlier (Table D-3). Indeed, it allows the voluntary early departure program to be completely financed from domestic resources without having the adverse effect on the materials to personnel expenditure ratio in 1986 and 1987 noted above.

3. Use of the Model: Setting Targets and Monitoring

The results just presented are important indicators of the potential for EPRP impact. Sensitivity tests, however, show projections to be highly sensitive to assumptions as to future year revenue collections, debt arrearages, hiring policies, and the like (Table D-3). Rather than arguing that the ratios projected at this point to occur in 1986 and 1987 as a result of combined implementation of EPRP and of the GRM measures be made program conditions, it is therefore recommended that the present results should be taken as indicative of program impact and of targets to be set. Targets in the form of expected materials/personnel ratios will be specified on a year to year basis as preconditions to tranche disbursal, using the model, but these targets may differ somewhat from the ones indicated by the projections presented here, as projections of underlying conditions are further refined in the negotiating process. It is suggested that the model should be used as follows: annually to set next tranche target ratios; to revise targets as necessary in view of changes in conditions beyond the control of the GRM, which may have occured during the implementation period; and to monitor the EPRP's progress.

This will permit the USAID/Mali Program Economist (project manager) and the members of the PCU set targets in terms of what is desirable as far as budgetary restructuring is concerned and taking into account what is realistically possible, given the changes in circumstances which are bound to occur elsewhere in Mali's economy. The target for the upcoming year will be set at the joint USAID/GRM reviews held prior to disbursement for the second component (budget restructuring) tranches. Events throughout the year will be monitored by the PCU and the project manager to determine why deviations occur (if they do) and what impact they are likely to have on the ratio between materials and personnel expenditures. Prior to the joint review, the USAID

Program Economist will prepare the appropriate background material for the review sessions and will decide whether to propose that the divergence from the target is so serious as to warrant deferred disbursement or outright cancellation of disbursement of the upcoming tranche.

Table D-4 indicates the prospective magnitude (in net present value terms) of the savings on personnel outlays resulting from budget restructuring measures supported by the EPRP grant, from the inception of the program through the year 2000. As can be seen from Table D-4, in addition to their important near-term effects, the budget restructuring measures also have highly significant longer term potential impact on the level of expenditures on materials and on the materials/personnel expenditure ratio.

Implementation of the two year voluntary early departures program involving 600 civil servants in 1986 and 1987 (case II of Table D-4) results in net savings on personnel outlays totalling $8.5 million, discounting at 10%, from the inception of the program through the year 2000, and allows a corresponding equal increase of expenditures on materials without any worsening of the budget deficit. This estimate of the net present value of budgetary savings on personnel outlays due to the VED program is conservative since annual budgetary savings extend well beyond the year 2000, to 2007 or so, at which time most of the participants would have retired from the payroll in the normal course of events.

Dividing the present value of the budgetary savings, discounted at 10% ($14 million at a FCFA/$ exchange rate of 450 FCFA/$), by the discounted outlays on severance pay, pension fund payments and capitalization of the guaranty and feasibility studies funds ($5.6 million) yields a benefit/cost of ratio of 2.5. Actually, the benefit/cost ratio is higher than this, since the guaranty fund will earn interest for the government and, to the extent ex-civil servant VED participants' business ventures work out well, the government will recover interest and principal from this fund or be able to keep it in operation indefinitely to provide partial guarantees on future enterpreneurial loans. Taking this into account raises the benefit/cost ratio to about three to one, and taking into account the stream of net benefits beyond the year 2000 would raise it still further, to approximately four to one, consistent with the financial analysis presented in Table D-2 earlier.

A phased reduction in the recruitment ceiling by 300 and then 600 entrants a year, to 800 new hires a year, if maintained after 1988, has a very large and growing impact over time -- the present value of budgetary savings at 10% is $53.6 million (case 1). Combining this with the $8.5 million of budgetary savings from the VED program yields net budgetary savings on personnel outlays of $6.7 million discounted at 10% (case 3), corresponding to a potential increase in materials expenditures of the same amount from 1986 through 2000. With the EPRP funding associated with budget restructuring, materials outlays increase by a further $6 million (in present value terms) to $67.7 million over this period (case 4). The materials to personnel expenditures ratio holds steady over the period at the relatively high level (by Malian historical standards) of 0.33 to 0.34, instead of declining as in the baseline case from 0.327 to 0.2.

The potential impact, short term and long term, of the EPRP and associated budget restructuring measures on the structure of the budget is clearly large and significant.

Table D-1 Baseline Projections for GRM Budget, 1985 - 1990

Principal Budget Categories	Av. Growth Rate (%)	Level -- in millions of francs CFA 1985	1986	1987	1988	1989	1990
REVENUES							
Tax and Nontax Revenues	7.5	69200	74390	79969	85967	92415	99346
Grants plus External and Domestic Borrowing		1300	4455	4163	4097	4069	4086
Total Budgetary Resources	8	70500	78845	84132	90064	96484	103432
EXPENDITURES							
Interest payments on external debt	-3.6	6390	7020	4905	6345	5805	5310
Transfers and subsidies	7	15610	16703	17872	19123	20462	21894
Investment, equipment	7	1700	1819	1946	2082	2228	2384
Civilian Personnel Expenditures	9.4	27652	30189	32941	35941	39159	43303
Military Personnel Expenditures	10	9148	10063	11069	12176	13394	14733
Materials Expenditures	9.6	10000	13051	15399	14414	15436	15808
Total Expenditures		70500	78845	84132	90081	96484	103432
Materials Expenditures	9.6	10000	13051	15399	14414	15436	15808
Total Personnel Expenditures	9.5	36800	40252	44010	48117	52553	58036
Ratio of Materials/Personnel Expenditures		0.272	0.324	0.35	0.3	0.294	0.272

Table D-2. Cost-Benefit Calculation for A Voluntary Early Departure Program
Based on Malian situation in January, 1985

(in millions francs CFA)

Budgetary Effect		Level		1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
COSTS FOR 600 PARTICIPANTS																									
Severance Pay	-Category A	4.0		800																					
	-Category B	2.5		500																					
	-Category C	1.7		340																					
	Total:			1,640																					
		(5-14 yr)	(15-26 yr)																						
Pension [illegible]	-Category A	0.98	1.68	129	11	12	13	13	15	15	17	18	20	20	23	23	26	0	0	0	0	0	0	0	0
	-Category B	0.59	0.86	58	9	10	11	11	12	13	14	14	16	16	18	19	0	0	0	0	0	0	0	0	0
	-Category C	0.42	0.60	50	5	5	6	6	7	7	8	8	9	9	10	10	0	0	0	0	0	0	0	0	0
	Total:			237	26	27	30	31	34	35	39	40	45	46	51	52	26	6	0	0	0	0	0	0	0
Sub-Totals:	-Category A			929	11	12	13	13	15	15	17	18	20	20	23	23	26	0	0	0	0	0	0	0	0
	-Category B			558	9	10	11	11	12	13	14	14	16	16	18	19	0	0	0	0	0	0	0	0	0
	-Category C			390	5	5	6	6	7	7	8	8	9	9	10	10	0	0	0	0	0	0	0	0	0
GRAND TOTAL (millions FCFA)				1,877	26	27	30	31	34	35	39	40	45	46	51	52	26	0	0	0	0	0	0	0	0

Net Present Value of Costs: 1,043 million FCFA for Category A
644 millions CFA for Category B
438 millions CFA for Category C

TOTAL NPV Costs: 2,125 millions CFA

of which: pension (5-14 yr 237 millions CFA
pension (15-26 y 248
severance pay 1,640

BUDGETARY SAVINGS FROM 600 PARTICIPANTS LEAVING IN 1986

		1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
By Category:	-Category A		335	345	389	400	431	462	521	534	601	614	691	706	793	505	567	579	651	664	745	759	851
	-Category B		196	201	226	231	260	266	299	305	342	349	392	399	207	211	237	242	274	276	309	314	0
	-Category C		137	140	157	161	181	184	207	211	237	241	271	276	175	178	199	203	227	231	259	263	0
	Total:		668	685	773	792	892	913	1,027	1,050	1,180	1,205	1,353	1,3[illegible]	1,175	894	1,004	1,024	1,149	1,171	1,313	1,337	851

NPV (@ 10 %) of Budgetary Savings: 4,394 million FCFA for Category A
2,250 million FCFA for Category B
1,622 million FCFA for Category C

TOTAL 8,266 million FCFA

Ratio of PV Benefits/PV Costs: 4

Principal Hypotheses:	600 VED program participants, of w	200 in Category A or	3 % of	6,766	civil servants in this category
		200 in Category B	1	15,242	civil servants in this category
		200 in Category C	1	13,490	civil servants in this category
	Among these participants: 132 in Cat	66 % with 5-14 yrs of se	4 % of	3,159	those civil servants participating
	100 in Cat	50 % with 5-14 yrs of se	1	7,274	
	120 in Cat	60 % with 5-14 yrs of se	2	7,788	
	68 in Cat	34 % with 15-26 yrs of s	5 % of	1,255	those civil servants participating
	100 in Cat	50 % with 15-26 yrs of s	2	4,600	
	80 in Cat	40 % with 15-26 yrs of s	2	3,669	

Level of severance pay: 4.0 million FCFA for civil servants in Category A
2.5 million FCFA for civil servants in Category B
1.7 million FCFA for civil servants in Category C

Table D-3. Various Scenarios of Budget Restructuring
Increases (+) or Decreases (-) from Baseline
Materials/Personnel Expenditure Ratio

(in percentage points)

	1985	1986	1987	1988	1989	1990
BASELINE RATIO	27.2	32.4	35	30	29.4	27.2
Increases (+) or Decreases (-) from Base Line						
Voluntary departure (VED) program in 1986 and 1987	0	-2.4	-3.7	1.9	1.9	1.9
Reduction of recruitment from 1400 to 1100 then 800 per year	0	0	0.6	1.7	2.7	3.8
Both VED and recruitment reduction	0	-2.4	-3.1	3.6	4.7	5.7
EPRP and VED at same time (EPRP at $7 million level)	0	0.3	1.1	1.9	1.9	1.9
ERPR, recruitment reduction, and VED at same time	0	0.3	1.7	3.6	4.7	5.7
Baseline with revenues growing at 8% instead of 7.5%	0	0.9	1.7	2.5	3.3	4.1
Baseline with 8% revenue growth, but slower wage increase (3% instead of 5%)	0	2.8	5.6	8.1	10.9	13.5

Table B-4

BUDGET RESTRUCTURING SIMULATIONS

(all numbers in millions of CFA francs unless otherwise stated)

Case 1: Recruitment ceiling reduction from 1400 new hires to 1100 to 800, no EPRP funding

PROJECTION NUMBER # 1, revenue growth 7.5% nc EPRF - ceiling at 1400, 1100, 800	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000		
Materials Outlays (= revenues + grants + credit financing less other outlays)	10000	13051	15592	15030	16532	17867	19246	21119	23089	25161	27338	29620	32012	34519	37140	39878		
Baseline Case Materials Outlays	10000	13051	15399	14414	15436	15808	16972	18157	19357	20570	21791	23012	24227	25432	26612	27759		
Increase / Decrease (-) over Baseline	0	0	193	616	1096	1659	2274	2962	3732	4591	5547	6609	7785	9087	10528	12119		
Incr./ Decr. (-) over Baseline in $10 6	0	0	0.4	1.4	2.4	3.7	5.1	6.6	8.3	10.2	12.3	14.7	17.3	20.2	23.4	26.9	NPV at 10%=	53.6
Expenditure Ratio	0.272	0.324	0.356	0.317	0.321	0.31	0.315	0.319	0.322	0.324	0.325	0.325	0.324	0.322	0.32	0.317		
Baseline Case Ratio	0.272	0.324	0.33	0.3	0.294	0.272	0.268	0.263	0.257	0.25	0.243	0.235	0.227	0.219	0.21	0.201		
Increase / Decrease (-) over Baseline	0	0	0.006	0.017	0.027	0.038	0.047	0.056	0.065	0.074	0.082	0.09	0.097	0.103	0.11	0.116		
Expenditure Ratio including cost of capitalizing funds in personnel outlays	0.272	0.324	0.356	0.317	0.321	0.31	0.315	0.319	0.322	0.324	0.325	0.325	0.324	0.322	0.32	0.317		
Baseline Case Ratio	0.272	0.324	0.33	0.3	0.294	0.272	0.268	0.263	0.257	0.25	0.243	0.235	0.227	0.219	0.21	0.201		
Increase / Decrease (-) over Baseline	0	0	0.006	0.017	0.027	0.038	0.047	0.056	0.065	0.074	0.082	0.09	0.097	0.103	0.11	0.116		
Personnel Expenditures	36800	40252	43817	47484	51457	56377	61090	66197	71732	77729	84229	91275	98913	107192	116167	125897		
Baseline Case Personnel Expenditures	36800	40252	44010	48100	52553	58036	63364	69159	75464	82320	89776	97883	106698	116279	126695	138016		
Increase / Decrease (-) over Baseline	0	0	-193	-616	-1096	-1659	-2274	-2962	-3732	-4591	-5547	-6608	-7785	-9087	-10528	-12119		

Table B-4

BUDGET RESTRUCTURING SIMULATIONS

(all numbers in millions of CFA francs unless otherwise stated)

Case 2: Two year VED Program, no EPRP funding

PROJECTION NUMBER # 2, VED, revenue growth 7.5%
no EPRP - ceiling at 1400 throughout

FROJECTIONS OF MATERIALS OUTLAYS AND OF RATIO

PROJECTION NUMBER	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000		
Materials Outlays (= revenues + grants + credit financing less other outlays)	10000	12083	13720	15118	16194	16635	17862	19112	20385	21676	22980	24290	25601	26907	28198	29463		
Baseline Case Materials Outlays	10000	13051	15399	14414	15436	15808	16972	13157	19357	20570	21791	23012	24227	25432	26612	27759		
Increase / Decrease (-) over Baseline	0	-968	-1679	704	758	827	890	955	1028	1106	1189	1278	1374	1475	1586	1704		
Incr./ Decr. (-) over Baseline in $10 6	0	-2.2	-3.7	1.6	1.7	1.8	2	2.1	2.3	2.5	2.6	2.8	3.1	3.3	3.5	3.8	NPV at 10% =	8.5
Expenditure Ratio	0.272	0.3	0.313	0.319	0.313	0.291	0.286	0.28	0.274	0.267	0.26	0.252	0.243	0.234	0.225	0.216		
Baseline Case Ratio	0.272	0.324	0.35	0.3	0.294	0.272	0.268	0.263	0.257	0.25	0.243	0.235	0.227	0.219	0.21	0.201		
Increase / Decrease (-) over Baseline	0	-0.024	-0.037	0.019	0.019	0.019	0.018	0.017	0.017	0.017	0.017	0.017	0.016	0.015	0.015	0.015		
Expenditure Ratio including cost of capitalizing funds in personnel outlays	0.272	0.298	0.309	0.319	0.313	0.291	0.286	0.28	0.274	0.267	0.26	0.252	0.243	0.234	0.225	0.216		
Baseline Case Ratio	0.272	0.324	0.35	0.3	0.294	0.272	0.268	0.263	0.257	0.25	0.243	0.235	0.227	0.219	0.21	0.201		
Increase / Decrease (-) over Baseline	0	-0.026	-0.041	0.019	0.019	0.019	0.018	0.017	0.017	0.017	0.017	0.017	0.016	0.015	0.015	0.015		
22) Personnel Expenditures	36800	40252	43777	47368	51765	57178	62442	68170	74400	81177	88548	96564	105281	114759	125062	136263		
22a) (Type in baseline results) Baseline Case Personnel Expenditures	36800	40252	44010	48100	52553	58036	63364	69159	75464	82320	89776	97883	106678	116279	126695	138016		
22b) Increase / Decrease (-) over Baseline	0	0	-233	-732	-788	-858	-922	-989	-1064	-1143	-1228	-1319	-1417	-1520	-1633	-1753		
... in millions of dollars:	0	0	-0.5	-1.6	-1.8	-1.9	-2	-2.2	-2.4	-2.5	-2.7	-2.9	-3.1	-3.4	-3.6	-3.9	NPV at 10% =	-10.5
22c) Personnel expend. incl. capitalization of funds	36800	40573	44414	47368	51765	57178	62442	68170	74400	81177	88548	96564	105281	114759	125062	136263		
22b) Incr./Decr.(-) incl. funds capitalizati	0	321	404	-732	-788	-858	-922	-989	-1064	-1143	-1228	-1319	-1417	-1520	-1633	-1753		
... in millions of dollars:	0	0.7	0.7	-1.6	-1.8	-1.9	-2	-2.2	-2.4	-2.5	-2.7	-2.9	-3.1	-3.4	-3.6	-3.9	NPV at 10% =	-8.7

Table B-4

BUDGET RESTRUCTURING SIMULATIONS

(all numbers in millions of CFA francs unless otherwise stated)

Case 3: Recruitment ceiling reduction and two year VEB program, no EPRP funding

PROJECTION NUMBER # 3, VEB, revenue growth 7.5% no EPRP - ceiling at 1400, 1100, 800	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000		
PROJECTIONS OF MATERIALS OUTLAYS AND OF RATIO																		
Materials Outlays (= revenues + grants + credit financing less other outlays)	10000	12083	13912	15732	17282	18283	20120	22052	24088	26228	28479	30840	33319	35918	38637	41481		
Baseline Case Materials Outlays	10000	13051	15399	14414	15436	15808	16972	18157	19357	20570	21791	23012	24227	25432	26612	27759		
Increase / Decrease (-) over Baseline	0	-968	-1487	1318	1846	2475	3142	3895	4731	5658	6688	7828	9092	10486	12025	13722		
Incr./Decr.(-) over Baseline $10 6	0	-2.2	-3.3	2.9	4.1	5.5	7	8.7	10.5	12.6	14.9	17.4	20.2	23.3	26.7	30.5	NPV at 10% =	61.7
Expenditure Ratio	0.272	0.3	0.319	0.336	0.341	0.329	0.334	0.338	0.341	0.342	0.343	0.343	0.342	0.34	0.337	0.334		
Baseline Case Ratio	0.272	0.324	0.35	0.3	0.294	0.272	0.268	0.263	0.257	0.25	0.243	0.235	0.227	0.219	0.21	0.201		
Increase / Decrease (-) over Baseline	0	-0.024	-0.031	0.036	0.047	0.057	0.066	0.075	0.084	0.092	0.1	0.108	0.115	0.121	0.127	0.133		
Expenditure Ratio (includes cost of capitalizing funds)	0.272	0.298	0.315	0.336	0.341	0.329	0.334	0.338	0.341	0.342	0.343	0.343	0.342	0.34	0.337	0.334		
Baseline Case Ratio	0.272	0.324	0.35	0.3	0.294	0.272	0.268	0.263	0.257	0.25	0.243	0.235	0.227	0.219	0.21	0.201		
Increase / Decrease (-) over Baseline	0	-0.026	-0.035	0.036	0.047	0.057	0.066	0.075	0.084	0.092	0.1	0.108	0.115	0.121	0.127	0.133		
Personnel Expenditures	36800	40252	43585	46754	50677	55530	60184	65230	70697	76625	83049	90014	97563	105748	114623	124245		
Baseline Case Personnel Expenditures	36800	40252	44010	48100	52553	56036	63364	69159	75464	82320	89776	97883	106698	116279	126695	138016		
Increase / Decrease (-) over Baseline	0	0	-425	-1346	-1876	-2506	-3180	-3929	-4767	-5695	-6727	-7869	-9135	-10531	-12072	-13771		
... in millions of dollars:	0	0	-0.9	-3	-4.2	-5.6	-7.1	-8.7	-10.6	-12.7	-14.9	-17.5	-20.3	-23.4	-26.8	-30.6	NPV at 10% =	-67.7
Personnel expend. incl. capitalization of funds	36800	40573	44222	46754	50677	55530	60184	65230	70697	76625	83049	90014	97563	105748	114623	124245		
Incr./Decr.(-) incl. funds capitalization	0	321	212	-1346	-1876	-2506	-3180	-3929	-4767	-5695	-6727	-7869	-9135	-10531	-12072	-13771		
... in millions of dollars:	0	0.7	0.5	-3	-4.2	-5.6	-7.1	-8.7	-10.6	-12.7	-14.9	-17.5	-20.3	-23.4	-26.8	-30.6	NPV at 10% =	-65.9

BUDGET RESTRUCTURING SIMULATIONS

(all numbers in millions of CFA francs unless otherwise stated)

Case 4: Recruitment ceiling reduction and two year VED program, with EPRP funding

PROJECTION NUMBER # 4, VED, revenue growth 7.5% ceiling at 1400, 1100, 800, EPRP funding

PROJECTIONS OF MATERIALS OUTLAYS AND OF RATIO

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000		
Materials Outlays (= revenues + grants + credit financing less other outlays)	10000	13149	15995	15732	1728[illegible]	18283	20120	22052	24088	26228	28479	30840	33319	35918	38637	41481		
Baseline Case Materials Outlays	10000	13051	15399	14414	15436	15808	16972	18157	19357	20570	21791	23012	24227	25432	26612	27759		
Increase / Decrease (-) over Baseline	0	98	596	1318	1846	2475	3148	3895	4731	5658	6688	7828	9092	10486	12025	13722		
Incr./ Decr. (-) over Baseline in $10 6	0	0.2	1.3	2.9	4.1	5.5	7	8.7	10.5	12.6	14.9	17.4	20.2	23.3	26.7	30.5	NPV at 10% =	67.7
Expenditure Ratio	0.272	0.327	0.367	0.336	0.341	0.329	0.334	0.338	0.341	0.342	0.343	0.343	0.342	0.34	0.337	0.334		
Baseline Case Ratio	0.272	0.324	0.35	0.3	0.296	0.272	0.268	0.263	0.257	0.25	0.243	0.235	0.227	0.219	0.21	0.201		
Increase / Decrease (-) over Baseline	0	0.003	0.017	0.036	0.047	0.057	0.066	0.075	0.084	0.092	0.1	0.108	0.115	0.121	0.127	0.133		
Expenditure Ratio including cost of capitalizing funds in personnel outlays	0.272	0.323	0.361	0.336	0.341	0.329	0.334	0.338	0.341	0.342	0.343	0.343	0.342	0.34	0.337	0.334		
Baseline Case Ratio	0.272	0.324	0.35	0.3	0.296	0.272	0.268	0.263	0.257	0.25	0.243	0.235	0.227	0.219	0.21	0.291		
Increase / Decrease (-) over Baseline	0	-0.001	0.011	0.036	0.047	0.057	0.066	0.075	0.084	0.092	0.1	0.108	0.115	0.121	0.127	0.133		
Personnel Expenditures	36800	40252	43585	46754	50677	55539	60184	65230	70697	76625	83049	90014	97563	105748	114623	124245		
Baseline Case Personnel Expenditures	36800	40252	44010	48100	52533	58036	63364	69159	[illegible]464	82320	89776	97883	106698	116279	126695	138016		
Increase / Decrease (-) over Baseline	0	0	-425	-1346	-1876	-2506	-3180	-3929	-4767	-5695	-6727	-7869	-9135	-10531	-12072	-13771		
Increase / Decrease (-) over Baseline in millions of US dollars	0	0	-0.9	-3	-4.2	-5.6	-7.1	-8.7	-10.6	-12.7	-14.9	-17.5	-20.5	-23.4	-26.8	-30.6	NPV at 10% =	-61.5

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BUDGET RESTRUCTURING SIMULATIONS

(all numbers in millions of CFA francs unless otherwise stated)

Case 4: Recruitment ceiling reduction and two year VED program, with EPRP funding

PROJECTION NUMBER # 4, VED, revenue growth 7.5%
ceiling at 1400, 1100, 800, EPRP funding

(all numbers in millions of CFA francs unless otherwise stated)

SUMMARY OF ASSUMPTIONS:		1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
1) VEDP-RELATED EPRP DISBURSEMENTS		0	1215	2153	0	0	0	0	0	0	0	0	0	0	0	0	0
2) NUMBER OF VED PARTICIPANTS		0	204	396	0	0	0	0	0	0	0	0	0	0	0	0	0
CATEGORY A		0	68	132	0	0	0	0	0	0	0	0	0	0	0	0	0
CATEGORY B		0	68	132	0	0	0	0	0	0	0	0	0	0	0	0	0
CATEGORY C		0	68	132	0	0	0	0	0	0	0	0	0	0	0	0	0
3) SIZE OF PRIMES																	
CATEGORY A		N/A	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
CATEGORY B		N/A	2.5	2.5	.5	.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
CATEGORY C		N/A	1.7	1.7	.7	.7	.7	1.7	1.7	1.7	1.7	.7	1.7	1.7	1.7	1.7	1.7
4) CAPITALIZATION OF FUNDS		0	470	707	0	0	0	0	0	0	0	0	0	0	0	0	0
5) COST OF VED PROGRAM (based on (2), (3), (4)		0	117	1982	28	30	31	32	34	36	37	39	41	43	45	47	49
6) RECRUITMENT INTAKE			400	1100	100	100	300	800	800	800	800	300	800	800	800	800	800
7) RATE OF REVENUE GROWTH (LINE 270)	7.5																

ANNEX E

TAX REFORM

A. Introduction

At the time of independence, the Government of the Republic of Mali (GRM) introduced a policy on taxation which deliberately discouraged the creation and growth of private enterprises. The general anti-private sector orientation of the Government was questioned in 1968 at the time of the first coup d'etat and several attempts were made to open the economy more widely to private sector participation (see Annex F), but little has actually been done to encourage greater private sector growth. However, it is now generally recognized that the tax system is confiscatory and is, in effect, slowing national development. With the growing recognition that the state-led approach to development has not been as successful as initially hoped, the GRM has recently begun to consider changing its tax policies in order to improve the climate for private sector savings and investment.

When the possibility of receiving sector grant support as part of the Economic Policy Reform Program (EPRP) was realized, the GRM formed two working groups to propose specific tax reform measures which would be likely to provide new incentives to private sector growth but which could not be undertaken by the GRM without a revenue "safety net" in place. There is always the risk that reduction of rates for those taxes which are the most discouraging to the private sector will have an immediate negative impact on revenues. It is only in the long term that the effects of an enlarged tax base (and thus growing tax receipts) will be visible and, indeed, the magnitude of this impact cannot be precisely predicted.

The critical problem for tax reform in Mali is thus to finance the revenue shortfalls in the period of transition. It is difficult to reduce national budgetary expenditures further, especially when (as has been shown in Annex D), outlays on certain categories of expenditures are already too low. Nor is it possible to finance the revenue shortfall on the financial markets, as it is in more developed countries. The risk of fundamental disorganization in the economic system can only be alleviated by the injection of new sources of financing, e.g, EPRP.

The Malian authorities are perfectly aware, at the present time, of the fact that if private businessmen were to respect all tax laws, economic activity would be impossible. A majority of private entrepreneurs benefit from the lack of the capacity of the administration to force such compliance and operated in the informal -- or "underground" -- economy. The modern enterprises which are more or less forced to operate in the formal sector thus often find strong informal sector competition, partly because they are part of the very small proportion of businesses who carry the entire tax burden. In addition, the tax structure is such that entrepreneurs are encouraged to invest in commercial activities (with rapid capital turnover) rather than in production-oriented activities.

It was with this background and the possibility of EPRP funding to cover short-term revenue shortfalls in mind that the GRM requested, in March, 1985, that a team of experts from the International Monetary Fund (IMF) assist the Government in defining a specific list of tax reform measures which could be implemented over a three-year period (1986 - 1988). Specifically, the team was asked to: examine the tax system in Mali in the light of analyses and recommendations made by three previous IMF missions (in 1972, 1982, and 1983); analyze the preliminary proposals made by the working groups (internal revenues and customs) as part of the EPRP design discussions; give its advice on measures which could be implemented to improve the revenue yield and which would ameliorate the revenue shortfall problem in the medium term; and establish a plan of action citing those measures which could be implemented in a three-year period.

An economist who is an expert on tax reform in France was in Mali as a consultant to the EPRP design team at the same time as the IMF mission.

B. The Malian tax situation

Tax structures in Mali have been the subject of at least three International Monetary Fund analyses since 1973. The Government of the Republic of Mali (GRM) has sought IMF advice in identifying structural problems and in identifying structural problems and in proposing various reforms, particularly those which would aid in increasing revenues. Both the 1973 and 1981 analyses concluded that the tax structure of Mali was generally satisfactory but that both tax rates and tax yields could be substantially improved. Several specific actions were suggested, among them: (a) lower tax rates on business; (b) lower general income tax rates, with a revision of the method of tax liability calculation; (c) more effective efforts to combat tax evasion and fraud; and (d) several administrative changes, particularly with regard to granting of exemptions and collection procedures, which would improve yield.

The one immediate action taken on the basis of the 1973 recommendations was a reduction in the minimum corporate income tax (levied on the total amount of turnover) from 2 percent to 1 percent.

The GRM has extensively discussed and refined these analyses since the 1981 report, although few specific steps have been taken toward reform, partly out of certainty that immediate revenue shortfalls would occur if many of the recommended changes were adopted. Indeed, at one point in the early 1980's, the payroll tax was reduced from 15 percent to 5 percent in an effort to stimulate employment creation but a reduction in the income tax rate enacted shortly thereafter (for political reasons) incurred such drastic revenue shortfalls that the payroll tax rate was immediately brought back up. More recently, however, a consensus has developed around the point of view (a) that the present tax system does have a serious disincentive effect on private sector growth and on the willingness of private sector entrepreneurs to operate legally, and (b) that something must be done to change the situation if a more dynamic private sector is to be encouraged and the tax base is ultimately to be enlarged.

The breakdown of tax collections over the years is presented in Table E-1:

Table E-1. Revenue Collection in Mali, 1977 - 84

(in millions francs CFA)

	DIRECT TAXES	INDIRECT TAXES	CUSTOMS DUTIES	NONTAX REVENUES
1977	5298	3018	9794	-
1978	6201	3656	9881	-
1979	7541	5296	9938	-
1980	7090	5473	12563	-
1981	13510	5635	16338	-
1982	15880	5708	6097	-
1983	15985	7051	18149	-
1984 (est)	14671	7864	19019	2100

SOURCES: Garnier et al, IMF Report, 1981 and IMF Recent Economic Developments, 1985.

A brief description of the principal taxes in Mali is useful to understand the broad outlines of the system.

1. The General Income Tax

The general income tax or IGR in Mali is levied on wage and salary income and on annual family income from all sources, and accounts for between five and ten percent of total budgetary revenue. About 90 percent of the general income tax is withheld by employers; however, individual businessmen must also pay the general income tax on their annual labor incomes. The tax is assessed at highly progressive rates. The top marginal rate for the IGR was about 70 percent throughout the 1970's, but it was reduced to 50 percent in 1981. The top rate is reached at a current annual taxable income of 2 million FCFA (about $4400). Business income of individuals is taxes at a rate of 30 percent and the net is then subject to the general income tax at progressive rates. This has the effect of increasing the entrepreneurial income level subject to the top rate to approximately $6700. The general rate structure for the IGR is presented in Table E-2.

Because the methods used to calculate taxable income allow for considerable amounts of deductions, however, it has been estimated that as few as 20,000 individuals actually pay any income tax. Further reform of the Tax Code in 1982 reduced the importance of the income tax compared to other taxes on individuals (such as the payroll tax and the poll tax). Both the payroll and poll tax rates were increased while potential collections of income taxes were reduced not by changing income tax rates but by increasing allowable deductions.

Table E-2. The General Income Tax in Mali

BRACKETS (IN FCFA)	RATES (IN %)
0 - 25,000	0
25 - 100,000	8
100- 200,000	12
200- 325,000	18
325- 500,000	25
500- 750,000	30
750- 1,000,000	35
1 - 1,500,000	40
1.5 -2,000,000	45
Over 2,000,000	50

2. Business Income Taxes

a. The Tax on Industrial and Commercial Profits

The tax on industrial and commercial profits, the BIC, is levied on both individuals in sole proprieterships and on partnerships and corporations. It is a major business tax, accounting for between 8 and 12 percent of total budgetary revenue. Companies are taxed at a rate of 50 percent of net income earned in Mali; firms which are not incoporated are taxed at a rate of 30 percent; artisans, at a rate of 15 percent. Those enterprises not set up as companies with an annual turnover of less than 10 million FCFA (or 5 million FCFA in some cases) are taxed on a flat-rate basis.

b. The Minimum BIC

A minimum profits tax is levied on all businesses, profitable or not, at a rate of 1 percent of turnover. This is considered to be a highly unpopular tax, particularly as it hits so directly at firms suffering short-term reverses. Whether the tax burden is so great as to actually make a firm which is in difficulties go under, however, is another question. The minimum BIC, some argue, simply represents a fair return to the state for public services rendered. Since the minimum BIC payment is deductible from the general BIC on profits, companies earning profits do not incur any additional burden from the turnover tax.

c. The Payroll Tax

The payroll tax must be paid by all employers who are subject to the tax on industrial and commercial profits. The rate is 15 percent of the wage bill. It is a simple tax and a major revenue earner among the business taxes. While not directly related to the payroll tax, it is useful to not that employers must also pay several social security taxes: family allowances (80 percent paid by the employer); sickness (2.9 percent of wages) and occupational accidents (2.0 percent of wages); and retirement (2.4 percent of wages).

d. The IRVM

A tax known as the IRVM is levied on dividend payments, interest-bearing deposits, and some other interest payments. Three rates are possible: the standard rate is 18 percent. Bond bearers pay a special rate of 25 percent unless they are eligible for the reduced rate of 9 percent which is applied on bearer bonds issued by Malian companies and on dividend distributions by all companies in the first 42 months of operation.

e. The tax on property

Businesses are liable to a tax on rental income, including an imputed rental income from corporation-occupied buildings,and to one on real estate. There are several kinds of deducitons and exemptions, but the standard rate for rental income is 30 percent of value and that for real estate in 20 percent. Religious institutions pay only 0.5 percent real estate tax. This is again a very unpopular tax as it involves a highly subjective valuation of the occupancy value of buildings. The GRM is reluctant to eliminate it, however, as it the only tax levied on urban real estate.

f. The General Sales Tax, the IAS

Commercial, industrial, and craft enterprises are subject to sales taxes based on the amount of sales, the value of service or imports, all costs and duties included. Importations of raw or semi-finished goods for local processing into finished products are exempt as are exports, local agricultural production, social credit operations, and printing and newspaper enterprises. Transportation and public works pay 10 percent. The normal rate is 20 percent. The IAS accounts for the single largest tax contribution to total revenue.

g. The business license tax, the "Patente"

All individuals or entities in commerce, industry, or a profession are liable to a business license tax. Fixed fees are established by area and type of activity.

State enterprises are thought to be carrying less than their fair burden of taxes because they are generally unprofitable while the private sector burden is greater. In 1983, the most recent year for which actual collection figures are available, state enterprises paid 9 percent of taxes on net incomes and profits while private sector enterprises paid 33 percent. Other enterprises, presumably with mixed public and private ownership, paid 24 percent while individuals in business paid the remaining 33 percent. Of the taxes paid on goods and services (the IAS), state enterprises paid just over 20 percent while private enterprises paid more than 50 percent. Given that one of the major criticisms of the Investment Code has beens its over-liberal but somewhat aleatory granting of tax-exempt state and/or provision of special rates, it would be interesting to have this breakdown refined further.

3. Savings and Investment

While many of the business taxes mentioned above are felt to be unfavorable to entrepreneurs wishing to save and invest, interest on government bonds, savings in commercial banks, and interest on commercial bank loans are specifically exempt from taxes. Gross savings and gross investment are, however, low in comparison to GDP; they have held steady at 6 percent and 26 percent, respectively, since 1982.

4. Elasticity of the Tax System

The ratio of tax collections to GDP over the period 1976 to 1978 rose from 15 percent to 16.4 percent. Revenue collections increased at a slightly faster rate than growth in GDP. Over the period 1981 - 1983, however, the ratio of revenues to GDP declined from 15.4 percent to 12.7 percent. GDP growth from year to year exceeded growth in revenues. The IMF projects a change in the 1984 situation, that is, revenues increasing relative to GDP, but this estimate should be treated with caution.

C. The Working Group Proposals

Upon USAID's tentative expression of interest in assisting the Government of Mali to undertake a tax reform oriented to stimulating long-term growth in the private sector, the GRM launched two actions: first, two working groups were constituted to review again the 1981/2 IMF recommendations in light of present experience and to make preliminary proposals as to reforms which could be implemented if a EPRP safety net were to be available; and second, the IMF was requested to provide a team of tax experts to update the earlier work, consider the working groups' proposals, and recommend a course of action which would accomplish the reform objectives sought.

In this section, the points of view expressed by the working groups (one on Internal Revenues and one on Customs) and the recommendations for Program support are summarized.

The GRM is, by and large, aware of the private sector's point of view on disincentive aspects of the present system of taxation if the discussions of the working groups, which also involved private sector participants are taken as representative . It is clear, however, that given revenue needs, the tax administration has found itself bound into the current system.

Following the IMF analyses made in earlier years as well as the those conducted just recently, the GRM has taken stock of the various taxes and tariffs implemented and identified those which appear to be both amenable to change and to promise the greatest returns in terms of relieving the immediate tax burden on the private sector and so stimulating greater expansion of the tax base, increased investment in the formal private sector, and more employment. By reducing the rates, it is argued, peoples' capacity to comply with tax regulations is increased and incentives to evade and defraud the system are reduced. Rate reduction, therefore, should result in a wider tax base, over which the tax burden can be more widely shared, and need not result in a proportionate reduction in tax revenues. Complementary efforts must be made, of course, to bring about parallel improvements in tax assessment and collection efforts.

The two working groups debated the priorities for reform in this framework and came up with a list of specific taxes which warranted changing and a list of equipment and training needs which would permit better management of the internal revenue and customs operations. The tax reforms proposed included:

-- taxes on internal revenue

- Reduction of the minimum tax on business income from 1 percent to 0.25 percent of turnover;

- Suppression of the special tax on real estate "incomes" realized by enterprises occupying their own premises;

- Reducing the payroll tax rate from 15 to 5 percent; and

- Increasing the allowances (deductible from business income taxes) for amortization and renewal of equipment and material.

-- customs duties

- Revision of customs tariffs (lowering them for primary materials or semi-finished imports and raising them for finished products competing with local production)

- Experimental suppression of all export taxes for a period of three years.

In addition, the working groups suggested a number of potential areas for tax revision which required further study and requested support for the improvement of collection capability (through computerization, training, and working capital --vehicles, scales, radio systems, etc.).

D. The IMF recommendations

The IMF team was, fortunately, led by Mr. Abdel-Rahman, an IMF tax specialist who had been the leader of the 1973 team. He was, therefore, very familiar with the Malian system of taxation. The team member specializing in customs duties had been a member of the 1981 "Garnier" team and again provided important in-depth knowledge and continuity.

The need for structural tax reform was affirmed by the IMF team of experts. "During the period from 1970 to 1985, numerous modifications had been made in tax law in Mali. The modifications were largely implemented for reasons of expedience and were only partial in nature. They increased the complexity of administration and reduced the efficiency of the system as the most important instrument of financial and budgetary policy. As a result, the system lost its unity and acquired a character marked by anomalies and failures. The present incoherence of the system requires a structural tax reform."*

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* All quotations from this IMF draft aide-memoire of July 1, 1985 are rough translations by USAID/Mali.

The team warned, however, against the expectation of quick positive response from the private sector to any reforms involving reduced tax rates or the elimination of specific taxes as the working groups had proposed. "The mission wishes to underline that the increases in investment and employment projected by the implementation of [a short term program of reform] will be slow and negligible in the first years."

The following suggestions were then made as to measures which could be adopted in the short term by the Malian tax authorities and which, "in spite of their partial nature, could be anticipated to open the way for later structural reforms:"

- realignment of import tariffs (eliminating the anomalous situation of raw materials and semi-finished goods being taxed at higher rates than the finished goods of which they are part);

- elimination of export taxes (as revenues are so low in comparison with administrative costs and elimination could benefit producers);

- progressive elimination of administered prices for imports (the valeurs mercuriales) as a step toward more realistic import tariffs and a source of greater revenues (as present values are but a fraction of real prices);

- retention of the 1 percent rate for the turnover tax, the "minimum BIC" as a reduction in this rate (proposed by the working group) would involve a substantial revenue loss and it represents a fair return to the state for public services rendered to an enterprise even if the enterprise is in financial difficulties;

- reduction of the top rate of the business income tax (the BIC) from 50 percent to 45 percent for corporations and from 30 percent ot 25 percent for individuals as a means of stimulating savings and investment on the part of entrepreneurs who are already, by definition, successful;

- reduction of the payroll tax from 15 percent to 7.5 percent (instead of the 5 percent recommended by the working group), in recognition of its importance to the creation of employment but also of its importance in terms of revenue generation;

- allowing deductions for the amortization and replacement of capital equipment at rates which take inflation into consideration (with the caveat that should such savings ultimately be used for other ends, that they should be taxed);

- the establishment of a prepayment procedure for the business income tax (the BIC) at the stage of importation (in order to speed up revenue recovery, to improve the cash flow management in the enterprises, and to strengthen the ties between customs and internal revenues); and

- the substitution of the taxe sur taxe method of tax calculation for the base sur base method in the calculation of the general sales tax (the IAS) as well as the harmonisation of internal and import tax rates, the generalization of the system of tax credits and its extension to equipment and materials, elimination of export taxes, and elimination of the valeurs mercuriales as the basis for the IAS.

Some of the structural changes recommended by the IMF team were:

- reduction in the complexity of the customs tariffs (based in part on better statistical studies); and

- imposition of a single tax on personal incomes and a separate one on corporations (again for the reduction of complexity, but also with the idea of increasing revenue from income taxes).

Finally, the IMF team recommended administrative measures which could be implemented to increase the efficiency of tax administration, all including more effective use of computer systems as well as improved controls and investigations.

E. The EPRP Consultant's Recommendations

Working from the basis of the working group proposals, the EPRP tax reform consultant considered them in terms of the overall Program objective, improving the climate for private sector investment and employment generation. In this light, he concluded that it was essential to add some new ideas to the proposals made by the working groups, in order to have a more effective program and to respond to certain strategic requirements.

1. Specific Recommendations on Specific Taxes

The following list of actions were thus suggested as worthy of EPRP support:

- Retain proposals (2) and (4) made by the Tax Working Group, that is, suppress the tax on property incomes coming from buildings actively used in the functioning of the enterprise and extend the deductibility of profits withheld for the replacement or rehabilitation of plant or tools so as to allow for inflation.

- Retain the proposals of the Customs Working Group, that is, reduce the customs tariffs on certain primary goods and on certain semi-finished products and suspend, for three years, all export duties. It should be remembered that the Customs Department is still studying the possibility of reducing the tariff rates on a greater number of products. Even if more proposals in this direction are made in the coming months, they could not be taken into account except in a later, second, tranche of the program.

- Stretch out the timing on two other proposals made by the Tax Working Group: instead of reducing the minimum tax on corporate income (BIC) from one percent to 0.25 percent in the first year, go to 0.75 percent in the first year, to 0.5 percent in the second, and to 0.25 percent in the third year. Similarly, instead of slashing the payroll tax from 15 percent to 5 percent in one year, let it drop successively from 12 percent to 9 percent and, finally, 5 percent. If these reductions were programmed and announced in advance, they would be integrated into the economic calculus of entrepreneurs and would play a symbolic role in signaling a change in economic policy as well as a more rapid reduction.

- Reduce to 35 percent (or, possibly, to 40 percent) the maximum rate for the general income tax (IGR).

- Allow for the deduction of the tax on business income (BIC) from the general income tax (IGR). At the time of this analysis, the necessary information to quantify the potential impact of this measure on tax receipts was not available.

  An example of the method of sequential levying of taxes currently used in Mali is helpful in illustrating the disincentive effects which could be removed by allowing deductions of one tax from another: An individual who receives 100 francs for his labor and who finds himself in the 50 percent range of the IGR. If he invests what remains to him after paying the IGR (or 50 francs) and if the rate of return on this capital is 5 percent (or 2.5 francs), the yield after taxes on corporate income (the BIC) is 1.25 (taxed at the rate of 50 percent). After payment of taxes on the income from securities investments (at the normal rate of 18 percent), 1.025 francs will remain, of which the general income tax will claim 50 percent. Only 0.51 francs per year will be realized from the investment.

- Allow exemption from the general income tax (IGR) that part of the income which is saved and invested in shares of Malian enterprises or used for the purchase and development of personal businesses. It is obviously impossible to quantify the shortfalls incurred by such a measure but they would probably be minimal.

According to the consultant, the importance of a reform of income taxes, particularly those imposed on capital, cannot be overstressed. As is the case with much tax legislation, the Malian tax system tends to favor the incomes from labor over income from capital. This system, however, ignores a traditional principle of economic theory, that is, the returns to one factor of production are even greater when the other factors of production are more abundant. Wage-earners thus have an interest in capital accumulation being as large as possible. The Malian government is not in a position to bring this about on its own and, in any case, the public accumulation of capital is less efficient than the accumulation of private capital -- but the state can avoid the over-taxation of private capital. Two specific recommendations with regard to reform measures following this logic were, therefore, proposed:

- Tax rates on the income from share capital (transferable securities) should be reduced. The profit of one enterprise could well be taxed according to the BIC rate (at 50 or 30 percent), then according to the rates of the fixed capital income tax (18.9 to 25 percent), and then as part of the general income tax (up to 50 percent).

This multiple taxation on the same base is an approach hostile to savings and, in particular, to the form of savings most favorable to development which would permit the growth of publicly- held corporations. (It should not be forgotten that the development of publicly-held companies fostered the development of the West.) One could add that, from this point of view, the suppression of the schedular taxes is perhaps a good idea; it would lead to the resolution in part of problems of this type.

It should not be forgotten, either, that there is, outside of Mali, a certain number of Malians who have access to substantial resources and who could be tempted to repatriate them if they could benefit from a tax system less disincentive than the present one.

While the necessity of reducing the maximum rate of the general income tax (IGR) has already been noted, it might also be equally desirable to widen the brackets of the scale. In reality, a substantial number of civil servants wishing to launch a private enterprise would probably not see themselves as rapidly reaching the maximum rate but the widening of the brackets would probably attract some interest.

2. Modalities of Funding Disbursement

The consultant also addressed the question of appropriate modalities for disbursing the EPRP funds.

Two possibilites were envisaged:

- First, one could decide a priori on a given allocation of funds over the three years and calculate each in a contractual fashion; or

- second, one could evaluate the shortfall realized in each year by examining the receipts to each tax for which the rate has been modified and provide the necessary compensation.

The first method presents several advantages: it avoids having the Treasury finding itself in a difficult situation while waiting for the calculations of the amount owed to be made. It ensures that the sums required would be compatible with the total amount of funding available in the EPRP. It does not preclude, however, corrections during the course of the year (either modifying the proposals when one knows the results or allocating new resources to the program from a second tranche).

The second method gives the Treasury more guarantees against incurring an uncompensated risk. In the event that the growth in the tax base is rapid, some amount would remain available for accelerating the tax reform program or for other programs. But there is also a risk that the Treasury could find itself in a temporarily difficult situation if the shortfalls realized were greater than financing available through the program.

It might, therefore, be possible to think of a combination of the two methods (a minimal allocation at the beginning of the year and a possible correction at the end in view of the results actually realized).

3. Linkages with the GRM Personnel Reduction Program

Two reasons can be given for a recommendation to strengthen the tax reform effort vis-a-vis the voluntary early departure program:

- First, it is apparent that there are a number of uncertainties with regard to the latter program and it would be preferable to consider implementing the first phase of this program in an experimental way. If this decision is taken, more GRM funds will be available for the tax reform program.

- Second, the timing of the two programs is different, that is,

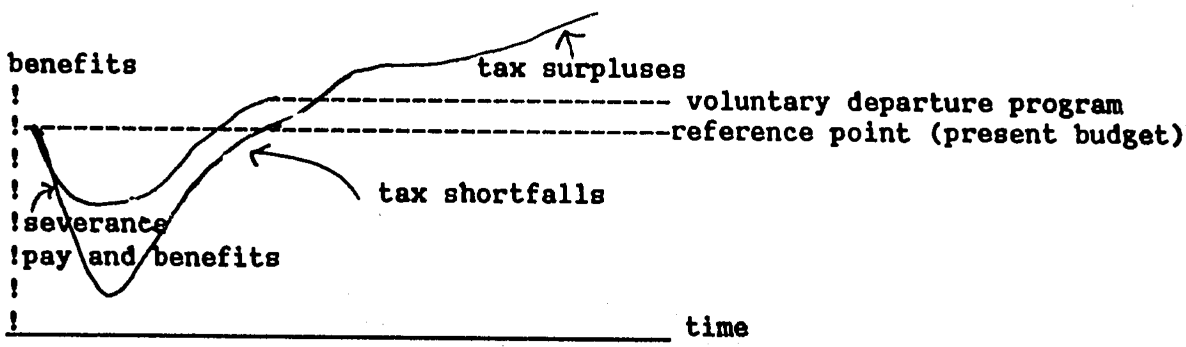
-- The voluntary departure program will incur an high cost in the first year (because of severance pay payment) but costs will be low in following years (guaranteeing pensions) and the budgetary savings will appear automatically thereafter (economies on salaries).

-- By contrast, the tax reform program will immediately lead to shortfalls; these could last several years if the growth of the tax base is not rapidly realized.

It is, therefore, preferable to begin the tax reform as soon as possible so as to permit funding throughout the program. (If, as an extreme case, the funding of the tax reform begins only at the end of the initial period of three years, Mali would be left with shortfalls impossible to finance in the fourth year.) Further, there can be no objections to stretching out the program of voluntary departure; indeed this would also permit more experimentation. (It is useful to note here in passing that the SNED survey on potential candidates motivations to join a program of voluntary retirement from the civil service -- see Annex F -- underlines the importance of taxes; many were not ready to leave the Civil Service as long as the taxes remained confiscatory, that is, the tax measures discussed in this Annex.)

Another difference between the programs can also be cited: the voluntary departure program not only leads to immediate budgetary savings but these will rest more or less constant in the future. The tax reform will only egister increased receipts after a certain period of time (2, 3, or 4 years), but if the new tax system provides true incentives, these surpluses will grow constantly (corresponding to the economic growth of the country).

The figure below illustrates these differences between the two programs.



In addition, it is desirable, for the success of the voluntary departure program, that the civil servants benefitting from this program readily find employment (either independent or salaried) in the private sector. This would, of course, be easier if the tax reform had already been completed some time ago. It would, therefore, be optimal to begin the tax reform quickly and to postpone the voluntary departure program.

4. <u>Complementary Proposals</u>

The EPRP tax consultant also made several proposals which he felt should eventually be considered in Mali, either within the structure of the present program or in the course of a second Economic Policy Reform Program (should such funding become available).

- <u>"Cultural" action</u>: Some Malian leaders are of the opinion that there is a serious lack of intellectual tools needed to increase understanding of the need for liberalization. The organization of seminars and conferences and the distribution of documents, books, and reviews are indispensable. The cost of these kinds of activities is minimal, but they would have a high rate of return.

- <u>Development of a financial market</u>: The creation of a stock exchange is essential for stimulating the development of corporations. It is probably premature to look for the creation of stock exchange in Bamako, but one could consider the introduction of Malian stocks, for example, in an exchange in Abidjan. This would require a branch office in Bamako to facilitate the transactions and the offerings of the exchange. A study of this subject would be very helpful (there is, for example, no knowledge in Bamako of the existence of such a stock exchange in Abidjan, although there is reason to think there must be one).

- Creation of free zones or zones of economic liberty to demonstrate in a concrete way the effectiveness of liberalization. One could assert the value of such zones perhaps by noting that there is an important movement to create free trade zones in other places and Mali has every interest in not letting neighboring countries get ahead in this area.

- Study of the system of property rights in Mali and necessary reforms (legal definition of rights, sanctions, development of cadasters, etc.)

- Studies on privatization of activities currently implemented by the state and other public organizations. Useful experience is being gained elsewhere in this area, particularly in Great Britain.

This list is obviously not exhaustive, but it covers several areas which appear to be useful to consider as possibilities for further development of the private sector in Mali.

F. The EPRP Tax Reform Package

It is proposed here to extend EPRP support to the GRM for carrying out this the following tax reforms over the next three years:

- Immediate reduction of the payroll tax rate from 15 percent to 7.5 percent of the total wage bill. While the rate reduction proposed by the working group (down to 5 percent) was seen as desirable in terms of potential for stimulating employment creation (especially if phased in gradually) the magnitude of the projected revenue loss combined with the probability that private sector response to the changed factor price of labor would not be fully realized within the life of the Program led to agreement on the slightly higher rate proposed by the IMF. By dropping the rate to 7.5 percent instead of the 5 percent proposed by the working groups, the GRM will still experience revenue shortfalls from this tax of nearly a billion FCFA per year;

- Reduction of top marginal rates on business incomes (the BIC) starting in 1987; a reduction from 50 to 45 percent for corporations and from 30 to 25 percent for individuals was proposed by the IMF and accepted by the GRM. The revenue loss is expected to be about 300 million FCFA in 1986, but the potential gain to be derived from the increased incentives to invest (and to report profits) is felt to justify the measure;

- Reduction of the one percent turnover tax rate (also known as the "minimum BIC") to a rate of 0.75 percent starting in 1987. A reduction to 0.25 percent was proposed by the GRM as a candidate for immediate action. This tax is presently levied on the total value of turnover of a firm, whether the firm realized a profit or loss. Firms which make a profit also pay a regular corporate income tax (the BIC), levied at a progressive rate. The "minimum BIC" is viewed as punishing to firms in temporary difficulties and as penalizing to firms with large turnovers and low profit margins, although it has no positive or negative effect on firms earning profits since it is deducted from the amount of the BIC. The symbolic effect of a slight reduction in the rate of the minimum BIC has been stressed by the GRM, however, and the slight reduction has been accepted for EPRP coverage on the condition that the top marginal rate for the BIC is reduced at the same time; and

- Realignment of customs duties to increase incentives for local manufacture and processing is an overdue measure for reform. By imposing higher customs tariffs on primary materials and semi-finished goods than on imports of finished products using those materials, Malian entrepreneurs incentives to manufacture are dampened by unfair competition from imports. The IMF has suggested that revision of the standard values (valeurs mercuriales) applied in the assessment of customs duties is also overdue and, further, that revision of these values would help to compensate for some of the losses likely to be experienced by the realignment of import tariffs along the lines noted above.

A key concern in determining which specific measures to support with EPRP financing has been to avoid reductions of taxes where there no specific incentive effect can be identified as a likely outcome of the reduction and to launch efforts necessary to provide the information basis for further reform in the future.

In addition, several options which would have required substantial adminstrative change over a very short period of time were laid aside. While some administrative improvement is expected over the years in which EPRP funding will be available -- and, indeed, is essential to provide for overall recovery of revenue to pre-reform levels, it seemed unwise in the extreme to leave the tax system with such a large shortfall at the end of the three years as to leave the GRM no choice but to increase tax rates again.

Proposals from the working groups and consultants for two other tax reform measures were very attractive according to our principal selection criterion -- impact on growth prospects in the private sector -- but simply could not be supported for lack of financing:

- Reducing the rates for the tax on dividend incomes (the IRVM) which currently provides very little in the way of revenue but may be highly disincentive to entrepreneurial investment in capital and increased deductibility for savings intended to be used for replacement and rehabilitation of capital. Both measures imply a revenue loss for the GRM in the short run, but are felt to be important for the longer-term investment prospects for the private sector. The shortfall in revenues is estimated to be about 500 million FCFA per year;

- Suppression of a tax on income from enterprise-occupied buildings, the revenue foncier, was also proposed. This tax is based on a fictive evaluation of revenue, discourages firms from investing in occupied real estate, and is widely thought to be abused. It generates little in the way of revenue, less than 200 million FCFA per year. Its suppression would be largely symbolic at this time, but it might also be a stimulant to investment in fixed capital. Largely because the effect of its removal is so uncertain, however, it has been decided not to extend EPRP support for this measure.

In addition, the IMF and USAID experts explored the possibilities of reducing rates on the general income tax. The top marginal rate of the general income tax (IGR) was already reduced from 70 percent to 50 percent in 1982.

Two ways of effecting a further reduction in this still very high rate were considered: (1) widening of the income tax brackets (the 50 percent rate is applicable when annual personal income is just over the equivalent of $4000); and (2) reducing the rates overall (say, from 50 to 35 percent). Unfortunately, the data base did not permit detailed enough analysis of these options to serve as the basis for a firm recommendation.

The working group which addressed customs issues proposed undertaking an experimental suppression of all export taxes. These taxes are often cited as providing a disincentive to increased production in Mali and an incentive to clandestine exports over the borders to neighboring countries. The IMF Mission agreed with this analysis and suggested permanent removal. EPRP resources proved to be inadequate to cover this shortfall, however, and because the evidence on the likelihood of stimulating greater exports is so limited and the rates applied are only in the range of one to five percent ad valorem, it was decided not to cover revenue losses due to this particular measure.

In addition, the various tax experts suggested three other areas which required further analysis or testing before being adopted on a full-scale basis:

- revision of the general income tax (either reduction of the top marginal rate or widening of the brackets or both);
- revision in the method of computing multiple taxes (changing from the present base sur base to a taxe sur taxe basis); and
- the possibility of creating duty free zones (exempt from all import and export taxes, payroll taxes, etc.).

The revision of tax computation methods has been selected as the one with the highest priority and will receive major attention. At this time, no revenue shortfall is projected for the implementation of this measure so no direct EPRP support is envisioned.

However, implementation of all these analyses requires that the Departments of Internal Revenue and Customs be assisted toimproving their databases (through computerization and better information management); using solid analytical frameworks; and generally improving the quality of staff. It is assumed that the International Monetary Fund is better placed to provide technical assistance in taxation systems based on those in France than is USAID, but it has been agreed that EPRP assistance would be useful in the area of computerization. The details of this support are found in Annex G. A summary of both the shortfalls which will be covered by the EPRP funding and the revenue gains which will be realized from administrative improvements and a change in the <u>valeurs mercuriales</u> is presented in Table E-3.

July 9, 1985

Table E-1. Tax Reform: EPRP Support Program

	FY 1986	FY 1987	FY 1988	TOTAL
A. Rate Changes and Structural Reform Measures (Estimated Revenue Shortfalls)				
Minimum business tax rate reduction (@ 0.75 %)		(403)	(435)	(839)
Increased deduction for replacement of equipment				
Reduction of rate for dividend income				
Reduction of rate for business income		(330)	(360)	(690)
Reduction of payroll tax (7.5%)	(900)	(972)	(1.050)	(2.922)
Elimination of export tax				
Realignment of customs rates	(252)	(755)	(755)	(1.762)
Total Anticipated Revenue Shortfall (FCFA millions)	(1.152)	(2.460)	(2.600)	(6.213)
Structural Changes to be studied:				
Replacement of "base sur base" system				
Single tax on revenues				
B. Estimated Revenue Gains (according to IMF report)				
Progressive elimination of administered prices	250	250	3,000	
Fight against fraud	250	500	1,000	
Advance payment of BIC at import level	300	400	500	
Administrative improvements	300	500	750	
Total Anticipated Revenue Gains (FCFA million)	1,100	2,650	5,250	9,000
Difference	(52)	190	2,650	2,787
C. EPRP Support				
Coverage of revenue shortfall (100 %, 65%, 35%) (in FCFA millions)	1.152	1.599	910	3,661
Coverage of revenue shortfall (in $ U.S.)	2,560.000	3,553,815	2,022,481	8,136,296
Computerization support (in $ U.S.)	p.m.	p.m.	177.519	177.519
D. Net Impact on GRM Revenue Picture (FCFA million) (Shortfall + Gain + EPRP support)	1.100	1.789	3.560	6,449

Exchange rate 450 FCFA/$1

ANNEX F

INSTITUTIONAL ANALYSIS AND BIBILIOGRAPHY

A. Introduction

The institutional overview of the Malian economy presented in this section is important reading for those wishing to deepen their understanding of the nature and complexity of (1) the policy and institutional constraints facing Mali's private sector; (2) the public sector burden on the economy; and (3) the difficulties involved in trying to addres these interrelated problems. A considerable amount of the material contained in the original consultant's report has been included in the text of the PAAD and, to conserve space, has not been repeated here. The material below provides additional insights into the institutional issues which are referred to in the text of the PAAD but, again for reasons of space, were not expanded upon fully. Copies of the complete report may be obtained from USAID/Mali or AFR/SWA.

B. Factors Affecting the Size and Efficiency of the State Bureaucracy

Perhaps the most significant cause of the current problems in the Malian civil service has been the orientation of the post-secondary school system towards public sector employment. Several factors contributed to this phenomenon:

- statist economic policies favoring the growth of the public over the private sector;
- a tradition of providing scholarships for post-secondary school students;
- the practice of automatically hiring recent graduates; and
- the sharp jump in the numbers of people attending post-secondary educational institutions,especially since the early 1970s.

1. The Logic of the Policy

At independence, Mali had few university graduates. It thus was natural for the Malian government to place a heavy emphasis on training people to fill the upper echelons of the state bureaucracy which had been held primarily by French colonial officials. To speed up this process and to encourage recent graduates to enter government service, the Malians set up new or expanded existing post-secondary institutions in the country to train teachers, doctors, agronomists, engineers, public administration specialists. The Government offered scholarships to students studying at home and abroad, and automatically hired the recent graduates to replace the French and to staff the higher echelons of a rapidly expanding bureaucracy. As long as the numbers were small and the needs for trained Malians high, this policy did not pose major problems. Indeed, such a policy was a necessity in order for the Malians to control their own state bureaucracy and reduce dependence on expatriate technical assistance.

However, by the mid- 1970s, it was already clear that the situation was beginning to get out of hand. Thus, a major study of Mali's manpower needs for the period from 1975-1985 (Pierot, 1975) warned that the present trend, if continued, would lead to a surplus of graduates at the higher levels. It would also create a situation in which the ratio between higher level and middle level civil servants would decrease from a more or less acceptable 1 to 3 ratio to a 1 to 1 ratio. Moreover, the report also noted that several areas had already come close to being saturated, e.g, forestry and civil engineering. Unfortunately, the government did little to heed the warnings and the dire predictions presented in the report have become realities.

During the 1970s, one saw an explosion in the number of students attending post-secondary educational institutions in Mali that was accompanied by a sharp surge in the number of high-level officials (Category A) in the Malian Civil Service. In the 1970-71 school year, for example, there were only 801 students attending all higher educational institutions in Mali and less than 350 in the Ecole Nationale d'Administration (ENA) which trained administrators, economists, and legal specialists for the Civil Service. This situation quickly changed. Thus, between 1973 and 1978, ENA turned out 552 graduates. And between 1970 and 1978, the number of Category A civil servants increased from 1,331 in 1970 to 3,243 by 1978. The trend towards more students and more Category A civil servants has continued. Thus in 1984, there were more than 8,700 students in post-secondary educational institutions in Mali, a more than tenfold increase since 1970 and nearly 6800 Category A civil servants. Given these numbers, is is easy to see how the practice of automatically hiring all recent graduates led to an incredibly top-heavy bureaucracy and why that policy had to be abandoned -- as it was in 1983.

There is some evidence that students are reluctantly beginning to adapt their aspirations to current realities. A recent survey (ENA, 1985) of ENA students indicates that they are no longer as sanguine about getting jobs in the civil service as in the past. Thus, the level of expectations has begun to go down and has led many students to look outside the public sector for employment.

2. The Heavy Burden of State Scholarship Programs on Public Finances

From a public finance perspective, Malian students -- post-secondary and, to a lesser extent, secondary school students -- are an integral part of Mali's public sector. The 1984 government budget set aside of total of 3.55 billion CFA for scholarships. This sum represented more than 10 percent of the total amount earmarked for personnel expenditures (slightly more than 32 billion francs CFA). The scholarship bill represented more than double the amount spent on personnel expenditures for over 8100 civil servants and contractual employees in the Ministries of Agriculture and Rural Development (now Livestock and Natural Resources).

To date, the government has done little to check the growth of the scholarship bill. On the contrary, the 1985 budget added an additional 250 million CFA for scholarships. Why does the government maintain its generous scholarship policies despite the country's difficult economic and financial situation?

There are several reasons underlying the continuance of government policies:

- The students are an important pressure group. In the late 1970s, student protests over reductions in scholarships shook the foundations of the regime. Although the government broke the strike by closing the schools down, the government did not markedly alter its scholarship policies. Since the 1968 military coup, the students have been the only group to openly challenge the regime. The government wants to keep on good terms with them.

- For the most part, secondary and post-secondary students are the children of the Malian elite. It is obviously not in the interests of the elite to suppress or sharply reduce the amount of number of scholarships for their children. To do so would mean that they would have to bear most of the costs of educating their children. The parents thus also constitute an important pressure group for maintaining the status quo.

- Many secondary and most post-secondary students attend institutions away from home. This means that they have to bear the costs of living away from home. Because Mali is one of the poorest countries in the world, few people can afford to support their children while away at school. To suppress the scholarships would thus, in effect, reduce opportunities any students who are not members of the elite have to get an advanced education. Still another reason for pressures to maintain the system.

While it is clear that the present system can not be maintained very much longer, it is unlikely that the government will move very rapidly to sharply cut the number of scholarships. This would be politically risky and raise the level of social tension in the country. The best that one can hope for is a gradual but steady weaning away from this practice.

3. Prospects for Reorienting the Educational System

Reforms are needed to slow down the rate at which new post-secondary graduates enter the labor market, to improve the quality of the new recruits entering the civil service, and to reorient recent graduates towards the private sector.

After reaching a peak of more than 2000 students in the early 1980s, ENA has slowly begun to reduce its numbers. This has been achieved by rejecting a certain number of late applications and by tougher grading in final exams for first and second year students.

A greater effort has been made to make the curriculum more relevant and plans are being made to give a larger place to in-house training to upgrade the skills of career civil servants. Thus, ENA has recently introduced a management training program as part of its curriculum. The management program could be useful for either those choosing public or private sector employment. This program reflects a growing awareness of the importance of preparing people for employment in the private as well as the public sector. ENA has already revamped its economics section by dividing the curriculum into three different categories: General Economics; Econometrics; and Planning. ENA has also established a special program to expand its short-term programs for career civil servants.

ENA is currently working to become a highly professional public school capable of meeting international standards. This would have the advantage of limiting the need to send students abroad for advanced training. To do so would mean a radical shift in its current orientation as ENA now acts more as an undergraduate faculty offering general training in law, economics, and public administration.

Unfortunately, there seems to be much less rethinking of educational strategies among the other post-secondary institutions in Mali. The Institut Polytechnique Rural (IPR) at Katibougou which has been turning out more agricultural, forestry, and livestock technicans than can be absorbed effectively in the administration would do well to follow ENA's example in reexamining its educational mission. Efforts to control the growth of the civil service and improve the efficiency of the state bureaucracy cannot be successful unless the issue of educational reform is addressed. And pressures on the government to absorb the growing tide of recent graduates will not subside until there are more opportunities for private sector employment for the new graduates entering the labor market.

4. Limiting the Size and Scope of the Public Sector

In 1983, the Malian government began a serious effort to limit the size of the public sector and to reduce the number of government employees. The resolutions passed by the National Council of the UDPM in January 1983 called on the government to reduce the number of personnel in the Civil Service and in state-run enterprises and to encourage the reorientation of civil servants towards the private sector. Since then, the government has fired approximately 1,500 employees in the state enterprise sector, put a ceiling on the hiring of new recruits for the Civil Service, and drawn up plans to privatize certain functions which are now the monopoly of the public sector (Coulibaly, 1984).

a. The Composition of the Public Sector

The public sector in Mali is not a homogenous entity. In order to get a better handle on understanding the issues concerning public sector employment and privatization, it is useful to break down the public sector into its various components. Public sector employment involves far more than the number of people working in the civil service. In fact, civil servants per se constituted only slightly more than a third of all salaried employees working in the public sector. The chart below provides a breakdown of salaried employment in Mali in 1981 (Lardeau, January 1985, p.29)

The table shows that the civil service is but one area in which public sector employment can be cut. More likely areas for cutting large numbers are the state enterprise and regional development organizations (ODRs) where privatization would lead to radical cuts in public sector employment. There are also important differences in the costs to the state in salaries and fringe benefits. The great majority of those working for state enterprises and ODR projects are low-paid relatively unskilled employees. In the ODRs,many are part-time or seasonal employees. On the other hand, civil servants tend

Salaried Employees in Mali in 1981

Category	Number	% of Total Work Force
1. Fonctionnaires	32,080	20.6
2. Conventionnaires	15,206	9.7
Total Civil Service	47,286	30.3
3. Municipal and Communal Employees	1,000	0.6
4. State Enterprise Employees	13,189	8.5
5. Regional Development Organizations and Office du Niger	25,304	16.2
6. Employees of other State and Parastatal Agencies	10,900	7.0
Total Public Sector	97,679	62.6
7. Organized Private Sector Employees	17,000	10.9
8. Domestic and Informal Sector Employees	41,321	26.5
Total Private Sector	58,321	37.4
Total Wage Employment	156,000	100.0 %

to receive a disproportionate share of the amount spent on salaries and fringe benefits because of the top-heaviness of the civil service, i.e. a much higher percentage of Category personnel than in the state enterprises.

b. Ceilings on Hiring in the Civil Service

In 1983 the Malian government put a ceiling on hiring for the civil service. While the regulations governing the recruitment of new positions in the Malian civil service through competitive examinations date back to 1978, these regulations were not implemented until 1983. The current recruitment procedures are as follows:

(i). Setting a Ceiling on New Needs

In March or April of the recruiting year, the Ministry of Finance sets a limit on the total amount of budgetary funds for the following fiscal year which can be allocated for filling new positions in the Civil Service, including tentative allocations for each ministerial department. A National Commission, with representatives from the Presidency, the Ministry of Plan, the Ministry of Employment and Civil Service, the Ministry of Finance, and the National Commission on Administrative Reform, then meets to determine the number of new posts.

The Commission looks both at the tentative allocation and at the requests which each department makes for new posts; these requests are supposed to be made on the basis of a careful evaluation of departmental needs and changing missions. The Commission appoints a subcommittee to go through the requests and to allocate the number of posts for each Category (corps) and for the different grades (A,B,C) within each category. The Subcommittee makes its recommendations and sends them to the National Commission which meets in plenary session to discuss them. The debate is usually hot and heavy as each department fights to get its fair share of places. If the National Commission can't come to some kind of agreement, it may take the issue to the President and the Council of Ministers. This is done informally. In theory, the National Commission must finish its work and set the number and kind of posts to fill before May 31. In practice, however, the Commission is usually late.

(ii). The Decrees

Once the National Commission sets the number of posts needed, the Planning Minister, the Finance Minister, and the Civil Service Minister sign a decree which sets the number of posts to be filled by direct competitive exams (concours) for each category of the civil service. The ball then passes to the Ministry of Employment and Civil Service which announces the competitive examinations including:

- the number of places open;
- the eligibility requirements, especially diplomas needed;
- the documentation needed to apply, e.g. birth certificate, proof of Malian nationality, copies of diplomas,etc. NB: The age limit is between 18-30. Under certain circumstances,the maximum age limit for a candidate can be extended to 35;
- the material to be covered in the exam and the time to be allocated for each part of the exam;
- the automatic failure grade, e.g. 7/20 (Sometimes a minimum acceptance grade is also listed); and
- the deadline for exam application. The candidate is given a minimum of one month and a maximum of two months to complete his application. The Ministry also prepares an official communique which is broadcast over the radio, printed in the press, and posted in various administrative services and diplomatic missions abroad.

(iii). Direct and Professional Exams

There are two different kinds of exams: the first (concours directs) is for new recruits who have never been in the civil service (recent graduates) and the second (concours professionnels) is for those already in government service who wish to advance in grade. Most of the direct exams took place in late December; this means that recent graduates had to wait several months after graduating before they could take their civil service entry exams. The Civil Service Statute reserves 20 percent of openings in Category B for Category C workers who pass the professional exam.

Civil servants in the B hierarchy can move up to A without passing a exam if they have the necesary diplomas, good evaluations, and a minimum number of years in service. This process is called voie de formation. After the application deadline is passed, a communique is issued, including:

- list of candidates accepted to take the exams;
- list of those candidates accepted with reservation that they produce necessary diploma or proof of having obtained the diploma;
- the list of individuals who do not have to take the exam, e.g. a doctor or another category where credentials are in order and there are clearly not enough candidates to fill open positions. These are recruited sur titre; and
- date and place of exams.

In principle, exams must be taken within 2 months after this communique.

(iv). Preparing the Exams

The Civil Service Ministry sets the general regulations and conditions for taking the exams to guarantee objectivity and fairness. Each corps has its own set of exams prepared by the Ministry of National Education and of various Technical Services. The Civil Service Agency makes arrangements for finding available buildings where the exams can be held. In general, the conditions for taking the exams are not very good. Overcrowding is a problem. In principle, exams are held in Bamako and in the regional capitals. However, in 1984, all exams were held in Bamako. This makes it more difficult for people in the regions to take them, especially civil servants seeking to take the professional exames.

(v). The Examination Results

A special commission to supervise and correct the exams is established each year, including representatives from the Civil Service Ministry, the National Education Ministry; and each of the technical services affected by the exam. The Commission has special examiners to correct the exams immediately after they are over. In 1984, the results were posted the very next day. Candidates have the right to look at their exams in case they are not satisfied with the grade .

(vi). Getting in the Civil Service After Passing the Exams

In principle, after sucessfully passing their exams, the new recruits formally enter the Civil Service starting on January 1. In practice, there is usually some delay. The new recruits must pass a probationary year in service before gaining all the rights and the job security which being a civil servant entails.

(vii). Changes in the System

The recruitment system has been complicated by the recent creation of the National Youth Service (SNJ) which is controlled by the National Defense

Ministry. Participation is, in principle, obligatory for all Malian citizens between 18-21 years of age.

After the decrees assigning the new recruits to their respective corps and positions, another decree is to put them at the disposition of the Minister of National Defense. The new civil servants are to be mixed in with other recruits. The SNJ is responsible for housing, clothing, and feeding the recruits and paying them a salary of 2000-2500 CFA a month.

The future role of the new recruits in the SNJ is a big question mark. Changes in the present system should be carefully monitored.

The system will also change once the cadres organiques are completed. At that point, one will theoretically know exactly how many places are needed for each corps and category in each department. This will reduce the amount of negotiation among various departments concerning how many new places they need. It will not, however, reduce the battling among departments seeking to get their "fair share" of the funds made available for new needs.

These measures, in effect, put an end to the practice of automatically taking new graduates into the civil service. At the same time, the government limited hiring of conventionnaires as replacements for those who died, retired, or left the service.

General across-the-board limits on hiring are not feasible or even desirable. One has to make a careful analysis of the composition of the civil service and look at the country's future needs in public services and manpower requirements. For example, the largest single category in the Civil Service encompasses those in education. In 1983, 14,502 civil servants were listed as working for the National Education Ministry. Thus, education employees alone accounted for more than 42 percent of the total number of people in the Civil Service.

Given existing population trends, Mali will need to hire more and more teachers just to maintain current rates of maintaining schoolage children in school which are quite low (less than 20 percent). Thus, one study on population trends in Mali predicted that Mali would need from 27,000 to 38,000 primary school teachers by the year 2000 (Futures Group, 1983). The challenge will be to find the financial resources needed to provide the human resources.

c. Voluntary Departure Programs

The EPRP project fits right in with the Malian governnment's new policy of reorienting at least some of the civil servants towards the private sector. In 1984, the government commissioned a survey to ascertain the attitudes and expectations of Malian public sector employees towards voluntary departure programs (Ministere du Plan, July 1984). The survey covered approximately a thousand state employees. Fifty- five percent of those survey were in the Civil Service, 15 percent in state enterprises, and 30 percent in the ODRS. The poll conducted by the Societe Nationale pour les Etudes de Development(SNED) worked with a representative sampling that closely reflected the composition of the public sector broken down by sex and age.

The results provide some useful insights concerning the extent to which state employees would consider leaving the public sector and the kinds of private sector activities which would be the most attractive:

- The majority of people polled (65.1 percent) had a favorable or somewhat favorable atttitude towards private sector reconversion. Only 7.6 percent had a totally negative view which saw the voluntary departure program primarily as a ploy to justify putting more people out of work.

- Of those willing to leave, about half would go if they had sufficient capital and equipment to get started. While the other half said they would also need major changes in government policies towards the private sector in addition to the financial needs expressed by the first group.

- Those most willing to leave came from the following categories: education, 35.6 percent; ODRs, with the exception of the CMDT (28.8 percent); health (19.1 percent); Category A civil servants with limited responsibilities also expressed a greater desire to leave. Older public employees were the most willing to leave.

- Those least willing to leave were those in the financial and economic services and those holding the higher ranking jobs in their services. The youngest employees were the least willing to leave.

- Of those willing to leave, 47.3 percent said they wanted to go into the agricultural sector (farming, livestock, forestry); 27.3 percent opted for industry (bakeries, construction, processing industries, machine repairs,etc); and 25.2 percent declared their interest in commerce and transport. More than 80 percent expressed a desire to go into business with their relatives, close friends, or former colleagues.

- Those willing to leave expressed the following preconditions for their departure: a sizeable amount of severance pay (prime de depart); a guarantee that those with more than 15 years of service would get their retirement pensions; a long-term, low interest loan to get them started in business; lowering of the tax rates on the private sector and, a more equitable tax collection system.

The expectations as to how much capital was needed to get started varied considerably. At the bottom end of the scale the most cited figures were 5 and 10 million CFA francs; at the medium end of the scale, the most cited figures were 25 and 50 million CFA francs. At the top a small but significant number said they needed anywhere from 100 million to 2 billion FCFA to launch their businesses.

The responses to the survey suggest that the GRM voluntary departure program is compatible with civil servants willing to leave to work in the private sector.

The same study also revealed that 44 percent of those polled carried on some business on the side in addition to their public sector jobs. Many state

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employees stay in the public sector because of the regular paycheck, health benefits, and pensions. At the same time, many seek to earn additional income "moonlighting" because salaries are insufficient to support their families.

Leaving the public sector to try one's luck in the private sector is by no means a new phenomenon. Many of Mali's most successful entrepreneurs are former civil servants. For example, the president of the Federation Nationale des Employeurs Maliens (FNEM) worked in the government for seventeen years before leaving the civil service to start his own business. Civil servants have also taken leaves of absences (disponibilite) to test the waters in the private sector. A former agricultural official who took a leave of absence to work as the Malian sales representative for a Senegal agricultural equipment firm after his initial success left public service and is now importing and distributing agricultural inputs. He also plans to construct an agricultural equipment assembly plant in Bamako's industrial zone.

5. Increasing the Efficiency of the Public Sector

Reducing numbers by itself will not increase the efficiency or improve the quality of the public sector. There is also a need for restructiuring and upgrading the skills of public sector employees.

a. Reducing the Top-Heaviness of the Civil Service

Since the 1970s the proportion of A category civil servants in the public sector in relationship to other categories have increased tremendously. As a result, the civil service is top-heavy with with too many higher level officials with too little to do and not enough middle level workers to implement programs.

The result is that one sees many department, division, and section heads with few people under them. What looks impressive on an organizational chart and in the official description of the department, division, or section's mission is often far less impressive when one actually visits the service in question. One thus finds many "chiefs" throughout the civil service with few "Indians". The GRM Voluntary Early Departure program hopes to contribute to the reduction of the top-heaviness of the civil service by placing a greater emphasis on encouraging the A category officials to leave in its voluntary early departure program component. Opening up opportunities in the private sector would also contribute to this goal by reducing some of the pressure on the government to hire post-secondary school graduates who would become part of the A category.

b. Reducing the Overconcentration of Civil Servants in Bamako

Nearly 55 percent of Malian civil servants are concentrated in Bamako. This reflects an unbalanced distribution of civil servants throughout the country. Too many A category officials are working in offices in Bamako and not enough are actually out in the field to executive policy in such fields as education, and health. Because working conditions are poor in the field, especially in the regions of Gao, Timbuktu, and Kayes, officials are more reluctant to serve there. Another factor contributing to the overconcentration of civil servants in Bamako is the fact that many of the 18 percent of the Malian public sector workforce are women. Most are the wives of civil servants and the preference is for married couples to work in Bamako which offers better educational and health facilities for their children.

To discourage the overconcentration of civil servants in Bamako the government will have to improve working conditions in the interior and perhaps offer incentive bonuses for those serving in hardship areas.

c. Higher Selection and Promotion Criteria

Until 1983, recent graduates did not have to pass competitive exams to get into the civil service. This practice meant that the government had to take all comers regardless of quality. Putting a ceiling on new recruits can not help but improve the quality of new civil service recruits. The government can be particularly selective in areas where there is an overabundance of candidates, e.g. the financial and economic services.

The quality of the civil service can also be promoted more effectively by placing greater emphasis on performance as a criteria for promotion. Civil service evaluations are given annually and most people more or less get passing grades which enable them to move up in the hierarchy. Sanctions are rarely applied for poor performance. Moreover, personal contacts also play an important role in the promotion process as in most bureaucracies. The government could also provide incentives for departments, divisions, and sections to work more effectively by offering additional resources in the form of higher salaries and more material support to reward outstanding performance.

d. Upgrading the Skills of Civil Servants in Government Service

In the past, high-level civil servants usually had to go abroad in order to upgrade their skills. This was costly to the government and often disruptive to the services where they worked. Malian post-secondary institutions offered relatively few opportunities for administrators and technicians to upgrade their skills.

The administrative reforms now in process, if they are to modernize and streamline the public sector bureaucracy, will require the upgrading of skills on the part of many civil servants in positions of high responsibility. There is a special need for improving managerial skills on the part of general administrators and techicians alike. There is also the need to learn more about computers and computer systems. Agricultural officials in the field, for example, also need to keep up to date about the latest agronomic research and how it can be applied.

ENA has already taken steps to expand its training programs for career civil servants and IPGP also trains public sector officials in management techniques. The IPR at Katibougou would do well to provide short courses to upgrade the technical skills of agricultural, livestock, and forestry agents while ENSUP should provide more short-term refresher courses to improve the quality of Malian schoolteachers.

e. Improve the Morale and the Ethics of the Civil Service

It is no secret that both morale and ethics are at low levels in the civil service. Morale is low because salaries have not kept up with living costs;

salaries are often not paid on time, and officials do not have adequate materials with which to work. Ethics are low because many civil servants, especially for those responsible for controlling and sanctioning infractions of government laws and regulation, have the opportunity to impose what is known in Mali as the "taxe sauvage" on the general public.

To improve morale, salaries should be paid on time, raised to keep up with inflations, material incentives offered to reward excellent performance, and working conditions improved to give greater professional satisfaction. The computerisation of salaries seems to be a positive step in the direction of getting people paid on time. These measures might make it less "necessary" for public officials to resort to the "taxe sauvage".

However, human nature being what it is, one should also remove temptation by sharply reducing and simplifying government rules and regulations affecting the general public. The number of public officials now policing and sanctioning violations of these rules should also be drastically cut. Among other things, one would reduce the number of transport control check points, adapt more realistic automobile and construction codes,eliminate most of the regulations now governing the commercial sector,and simplify customs and taxation regulations. Such measures would not only improve ethics in the public sector it would also radically decrease the kinds of transaction costs which have hindered the development of the private sector. It might also make the general public more law-abiding and less cynical about government.

C. Factors Affecting Private Sector Expansion

1. The Structure of the Private Sector

Before discussing the factors affecting private sector expansion, it will be helpful to briefly describe the various components making up the private sector and their relative weight in the national economy (IMF, April 17, 1985).

The primary sector (agriculture and livestock) accounted for 48.8 percent of Mali's GDP in 1983 which will be the base year for our analysis of the structural composition of the economy. Modern agriculture, e.g. Office du Niger and other mechanised projects, generated only 5 percent of the total value of the primary sector (173.3 billion CFA) while the "traditional" agricultural sector generated 62 percent. The livestock sector made up a third of the value of the primary sector. Revitalization of this sector which encompasses more than 80 percent of the population is a primary precondition for a healthy and vibrant economy. If this sector remains depressed, there will not be enough raw materials and purchasing power generated to spark the growth of other sectors.

Mali's secondary sector (handicrafts, energy, industries, and construction) accounts for only 15 percent of GDP. Construction and public works account for 42 percent of the sector; energy and industries for 50 percent; and handicrafts for 8 percent. State or mixed enterprises account for much of the industrial sectors production. But since,the late 1970s, the relative share of the private sector has been rising. Textiles and food processing together make up the bulk of Mali's industrial production, hence the importance of getting food and fiber from local production.

The tertiary sector (transportation, commerce,and public administration) accounts for 36.2 percent of GDP. Commerce alone generates approximately half the value of the tertiary sector. In Mali, the modern commercial sector centers around the import-export trade, urban retail activities and cereal marketing. The "informal sector" provides a great deal of low income employment for Malians and helps keep urban consumer prices down. One survey taken in the late 1970s revealed that there were over 16,000 "enterprises" in the informal sector in Bamako. The import sector is often at odds with Malian industry because imported goods are often less expensive than locally manufactured goods. Mali also has a dynamic "traditional" import-sector which usually bypasses customs relations. Cattle is the main export. "Traditional" commerce and the informal sector together constitute a very large underground economy.

As we have seen earlier, civil servants and recent post-secondary school graduates interested in the private sector have expressed interest in all the major sectors of the economy. However, they are primarily interested in working in the modern sectors of the economy rather than in traditional agriculture and commerce and handicrafts. Thus, most of the civil servants and recent graduates oriented towards private sector activities in agriculture and livestock are thinking in terms of establishing modern operations. They want to use modern equipment--motorpumps, tractors, fertilizer, etc. and to have relatively large farms. Those interested in livestock think primarily in terms of producing meat for urban markets via modern cattle feeding techniques. Those oriented towards industry want to start bakeries and other small-scale processing industries. Finally, those interested in the tertiary sector look towards the modern import-export trade ,hotels, and urban transport.

2. Institutional Constraints to Private Sector Expansion

Institutional constraints comprise some of the major factors blocking the development of the private sector in Mali. These include the following:

a. Overcentralized Decision-making

Mali is a highly centralized society where major and even relatively minor decisions affecting the economy have to be approved at the highest political level. There is very little delegation of authority to the different ministries. Practically every proposal has to go through channels and wind up in the Council of Ministers for approval. Companies applying for tax exemptions under the investment code have to be approved by the Council of Ministers. Changes in official price regulations have to be approved by the Council of Ministers. This cumbersome overcentralized decision-making process has several negative effects. It delays the moment when new businesses can contribute to the economy. It increases the costs of starting up new businesses. And it often encourages businessmen to bribe officials to see that their projects move through channels more rapidly and get approved at the highest levels. In short, transactions costs are high and discourages private initiative. Overcentralization also makes it difficult for the government to respond quickly to changing economic conditions. This is especially true in the area of pricing policies.

Overcentralization also markedly slows down the pace at which reform can proceed. It can take months if not years for the President and the Council of Ministers to approve legislation and reforms drawn up by different ministries. Thus, the new Commercial Code has been waiting for official approval for more than two years. The Council of Ministers simply has too many items on its agenda to deal with them expeditiously.

b. State Monopolies and Preferential Treatment for State Enterprises

One of the major reasons for the inefficiency of many of Mali's state enterprises is their monopoly position in the economy and the preferential treatment they get in terms of tariff regulations, tax exemptions, and special access to credit. As a result, state enterprises do not have to be competitive. For example, the Malian textile industry might be more efficient if it knew that it had to compete on an equal footing with Sengalese and Ivorian textile imports. When state enterprises incur losses, they can usually count on the government to bail them out. There is also little recourse for private suppliers when the state enterprises can not pay their bills. The state enterprises also siphon off a disproportionate share of the funds from the Malian Development Bank and leave little to finance private sector expansion and new enterprises.

Preferential treatment for state companies also discourages the development of private firms and healthy competition. For example, in 1981, the government decided to give the state insurance company the monopoly for all state enterprise insurance needs. This put La Soutra, a budding Malian private firm, in considerable difficulty because the decision suddenly took away an important share of La Soutra's business.

c. Cumbersome and Burdensome State Regulations

The Malian economy is clearly overregulated. The government hand is everywhere. The government regulates prices, imposes quotas on foreign trade, maintains an archaic and inefficient customs system, and makes it difficult for even the smallest businessmen to get licenses. The rules and regulations are often complex and little understood by the general public. This makes the general public subject to abuse by unscrupulous government officials through the "taxe sauvage". Complying with these rules takes a considerable amount of time and energy and raises the cost of doing business by delaying transactions. Non-compliance with the rules leads to fines and sanctions and greater temptations for private individuals and businessmen to bribe officials enforcing the rules to avoid the penalties.

d. A Confiscatory Taxation System

Mali's tax system has been widely criticized by Malians both in government and in the private sector as one of the major factors stifling the development of private initiative in Mali. (For a detailed analysis of Mali's tax system, see Annex E). Some of the weakest features of the system can be summarized as follows:

a payroll tax of 15 percent on all employees which discourages the hiring of more personnel.

- a 1 percent tax on the total volume of business even when the company is losing money. This imposes a heavy burden on businesses having a poor year.

- confiscatory tax rates which encourages massive tax fraud and evasion and makes it difficult for even successful firms to make enough profits to plow back into their businesses to spur further expansion.

- Heavy taxes on income from floating capital which discourages national savings.

- Overly generous long term tax exemptions for large-scale private firms covered by the investment code which deprives the state of tax revenue and puts a heavier burden on the rest of the private sector.

- High real estate and rental taxes which discourage the construction industry.

e. The Orientation of the Banking System Towards Public Sector Activity and Short-Term Profits

The banking sector in Mali is dominated by the state-run Malian Development Bank (BDM). The BDM clearly extends preferential treatment to state enterprises and channels credit and funds in directions deemed desireable by the government. This often leads to unsound banking practices, e.g. continuing to give credit to deficit state enteprises with little prospect of ever repaying their loans.

nother weakness of the banking sector is the reluctance of Mali's banks to offer medium and long-term loans at reasonable rates to finance business investment and expansion. This is one of the major grievances expressed by Malians in the modern private sector. (For a more detailed analysis of the structure and problems of Mali's banking sector, see the credit/banking notes in Annex H).

f. The Court System

Although the Malian constitution provides for a modern court system, Malians rarely use the courts to resolve their conflicts with other individuals, businesses, and the state. Most disputes are settled through negotiating and bargaining between the concerned parties.

The absence of a functioning court system to enforce property rights and to protect individuals and corporations against the violation of contractual arrangements by one of the concerned parties makes business deals much more risky and raises transaction costs. Moreover, there is no specialized court (tribunal) to deal with commercial matters. And there are not enough trained personnel available to staff such a court and to provide legal services for those wishing to go to court to resolve their problems.

The non-enforcement of laws designed to protect people against embezzlement, fraud, and non-payment for services hinders the development of a modern economy based on the rule of law.

3. Measures to Produce a Better Climate for Private Sector Expansion

Much can be done to reduce or eliminate the many of the institutional constraints cited above to spur the development of the private sector. The EPRP project can make a significant contribution to this end by encouraging and supporting government efforts to make needed institutional reforms.

a. The Grievances of the Private Sector

A study commissioned by the government in 1984 (Ministere du Plan, July 1984) made a detailed analysis of the problems and grievances of different components of the private sector. It would be useful to summarize some of the issues and grievances presented by the diverse associations affiliated with the Federation Nationale des Employeurs Maliens (FNEM) which was created in 1980 to represent Malian Employers.

Industry: Industrialists complained about the slowness of the licensing process (agrement) which increased the cost of equipment and construction because of inflation; the unwillingness of the banks to offer medium and long term loans to finance the industrial sector; the high tax burden; the irregular supply of electricity which adversely affected production; and the lack of sufficient protection for local industries because of the granting of import licenses.

The industrialists called for measures to consolidate taxes over longer periods of time, more credit from the banks, lower energy rates for industry in line with those in other countries;greater protection of local industry; renewed tax advantages for those covered by investment code; the creation of a Ministry of Commerce and Industry and changes in the composition of the National Investment Commission.

Commerce: The modern commercial sector representatives complained about the absence of a coherent government policy towards trade; the "unfair" competition of the dishonest merchants who did not pay their taxes; too high and too many taxes; and restrictive state licensing and regulatory practices.

To remedy the situation, they proposed stricter application of the law in dealing with smugglers and tax evader; the elimination of the monthly declaration of stockes and setting of profit margins; simplify access to import licenses; eliminate many of the customs taxes; simplify customs procedures; and eliminate indirect taxation.

Transport and Transit: Transporters and transitaires complained about poor roads; the difficulties of getting a professional license; the inadequate transport rates which had not been raised since 1981; sharply increased taxes; the confiscatory nature of fixed corporate taxes; the cumbersome customs and police formalities; the exhorbitant number of control posts;irregularities and abuses in dealing with infractions; the nonpayment of the government of its bills ; and the requisition by the state of private vehicles to deal with shortages.

To improve the situation, they recommended raising the transport rates per kilometer (TKM);give transporters a greater voice in setting rates; reduce the number of control points; reduce taxes directly affecting the transport profession- e.g. vignette, carte de transporteur, and patente; encourage the establishment of urban and inter-urban taxi and bus companies; and a downward revision of customs duties on trucks in line with those in neighboring countries.

- Construction and public works: Representatives of this sector complained about the lack of a national policy to promote Malian construction firms; the fact that there were no Malian enterprises capable of doing large-scale construction work; and the depressed state of the construction industry.

  To remedy the situation, they wanted the government to accord a 10 percent preferential rate to national firms over firms based outside of Mali in granting state contracts; institute a moratorium on interest payments in case of delays in their getting paid; revise rates to take into consideration unavoidable delays; and private sector representation in commissions responsible for controling competitive bidding.

It is interesting to note that there was general agreement in the private sector about the need to lower taxes, reduce cumbersome regulations, and give the private sector a greater voice in decisions concerning the national economy. On the other hand, one also saw a tendency for each of the concerned sectors to request some preferential treatment from the state, e.g., protect local industries, favored treatment for Malian construction firms, state crackdowns on "unfair" competitors, etc. If the Malian government introduced all the requested measures, one would see the loss of much of the state's tax revenue. And while there may be some merit to preferential treatment for "infant industries", this could dampen competition and prevent the entry of new entrepreneurs into the private sector.

b. Tax Reform

One of the keys to private sector expansion lies in the area of tax reform. There is nearly unanimous agreement on the need for tax reform. The EPRP's contribution to helping the Malian government take immediate measures to reduce taxes to stimulate the economy by offering to compensate the government for part of the tax losses incurred during the early phases of tax reform is discussed in some detail in Annex E. The IMF is also supporting these efforts and recommending a tax reform program that will made a judicious balance between the government's need for revenue and the private sector's need for tax relief.

c. Pricing Policy and Foreign Trade Regulation Reforms

Two areas in which one can expect to see considerable movement in the direction of reform fairly soon is in the area of pricing policies and the regulation of foreign trade. Top officials within the Direction Nationale des Affaires Economiques (DNAE) have been pushing liberalization measures. Their efforts which have been resisted because of the government's reluctance to loosen its grip on pricing and foreign trade controls seem ready to bear fruit. On May 27,1985, the Council of Ministers approved legislation liberalizing foreign trade regulations, and the Council of Ministers is expected to approve legislation further liberalizing pricing policies within the next few weeks.

Many of the restrictive pricing and foreign trade controls were introduced in the 1940s and have undergone little revision since. Since the government announced its intention to liberalize the economy in the early 1980s, the foreign trade division within the DNAE has pushed for foreign trade liberalization. The current system operates under rules established under Decret 92/PG/RM du 27 juin 1977 (Ministere des Finances, 1977). The guiding principle was that the state would regulate and set quotas on foreign trade products except for certain items. The new legislation proposes that the principle be reversed. Thus the new legislation begins by stating that all foreign trade is free except for those items which the government designates as important to the national economy. Having stated this, the rest of the legislation lists all the areas and conditions under which the government can set quotas and regular. The legislation gives the government the authority to control foreign trade as in the past. But to actually do so would violate the spirit of the law which is foreign trade liberalization. The final legislation is a compromise between those seeking to maintain the state s hold over foreign trade and those promoting liberalization. The legislation just approved by the Council of Ministers is more liberal in tone than that found in the annexes of the proposed Code de Commerce.

The main provisions of the new foreign trade include the following:

- brings together various bits of old regulations from French colonial decrees to the 1977 legislation and revises them to make them more in line with the government s new liberalization policies.

- lightens administrative formalities by reducing the number of forms to fill out.

- makes it easier to change quotas by having these decisions taken at the level of the Ministry of Commerce rather than waiting for approval by the Council of Ministers.

- tries to make rules more in conformity with those practiced by Mali s neighbors.

- rationalizes the classification system for foreign products and categories and prepares the groundwork for computerization of data.

In 1981 the government began to liberalize its pricing policies by liberalizing the cereals trade. The new pricing legislation about to be approved represents another step in the right direction. (Martinez,1984). One of the most striking anomalies and one that has been particularly harmful to local industries is the practice of limiting profit margins on industrial goods to 11.11 percent which dates back to French colonial days when the French wished to promote French imports to the colonies. The 11.11 percent industrial profit margin compares with the 20-40 percent allowed for imported goods. Malian industrialists have been lobbying to get the government to raise the legal profit margin. They also want more protection since raising profit margins and ,hence, prices might make their products less competitive with foreign imports.

While it is unlikely that the government will totally renounce its authority to regulate profit margins and prices, it may be willing to increase legal profit margins and to sharply reduce the number of items under price control. The proposed pricing regulation about to be approve is again a compromise between total state control and total liberalisation. While giving the state leeway to set prices on all products under certain conditions, the principle is, nevertheless, established that certain kinds of products should be free to reach its own price level.

Products come under three distinct types of foreign trade and pricing categories. The first concerns luxury products which are not in competition with local industry. These can be easily liberalized. The second concerns prices of non-essential goods which are in competition with local production. Here the government in its desire to hold down prices may be in conflict with the local industrialists who will want higher profit margins and protection from lower priced foreign goods.

The third category concerns basic consumer commodities-- rice, bread, cooking oil, etc. This is the area in which the government is least likely to renounce its right to control prices. In the past, the government has been reluctant to raise producer prices for agricultural commodities. Official cereal prices were thus kept low to keep urban food bills down. Since 1981 the government has begun to liberalize its pricing prices in cereals marketing and to raise producers prices to provide more incentives for rural populations. The most likely path to reform to be taken by the government is a step-by-step liberalization process starting with the non-essential and non-competitive goods.

Setting price margins has less efffect on final prices than it does in squeezing producer profit margins. The higher margins granted to importers explains why the commercial sector is not as enthusiastic about getting rid of ?homologation? as the industrialists. Low agricultural prices also benefit the middleman since he is entitled to fairly lucrative profit margins and has benefitted from the liberalisation of the cereals trade. Pricing policies and foreign trade controls are closely interrelated because imports are the dominant factor determining domestic prices (Martinez,1984). While price homologation doesnt affect pricing levels that much it does add to the cost of doing business by creating a heavy bureaucratic apparatus. To sum up, the upcoming measures to change the present price and foreign trade controls are a definite step forward in reducing distortions in the pricing system and in preparing the Malian economy to become more competitive.

4. <u>Implementing the New Commercial Code</u>

A new Commercial Code has been in the making for several years (Huyard, n.d.) and is slated to be approved by the Council of Ministers in mid-July.

There was clearly a need to establish a coherent Commercial Code because Malian business law consisted of a hodgepodge of old French and Malian texts which were not at all adapted to present day realities. The French texts were the same ones introduced during the colonial period. Since independence, the Malians have added regulations here and changed regulations there in a very unsystematic matters, thus making it difficult for the business community to keep up with changes. The new Commercial Code thus represents an effort to update and symstematize Malian business law and to make it more accessible to the business community. It was drawn up by a Commission which held 92 meetings between January 1981 and June 1982. Although the Commission was dominated by representatives of state agencies, the Chamber of Commerce also was present to express the views of the private sector.

The Commercial Code's guiding principle is "not to try to prevent that which is unpreventable". The old legislation was extremely rigid and unenforceable. For example, legislation concerning bankruptcy was severe, but also rarely applied. It also made it very difficult for merhcants to get approved licenses (agrement) to do business. The result was a remarkablly large number of businessmen operating without licenses and the bribing of officials to get licenses without having to go through all the formalities and paying the full costs of acquiring their business permits.

The Commercial Code thus provides the legal framework needed to promote a modern private sector based on the rule of law. It represents a sharp departure from the past and represents more a vision of the future than something that can be rapidly implemented. Although it is more coherent than the older business law regulations, it will still be largely unaccessible to the average Malian. It will be extremely helpful to the small Malian business who will be exempted from many of the restrictions and charges which plagued him in the past. It will also make it easier for businessmen to establish corporations and move beyond single proprietorship business.

On the other hand, the Commercial Code will not contribute to any major expansion of the private sector in the short run. Representatives of the Malian business industry insisted that tax reform and changes in pricing and foreign trade regulations would have a much greater effect in stimulating the private sector. Some also said that the Code was too abstract and legalistic to be understood and, hence, would take a long time to become fully assimilated by the Malian business community and an important tool for doing business.

5. Reorientation of the Banking Sector Towards More Productive and Longer-Term Investments

The Malian banking sector is characterised by the domination of the state banks and the unwillingness of most banks to offer medium and long-term loans to the private sector. The Malian banking sector would be healthier if the private banking system increased its relative weight vis-a-vis the state banking sector which is still largely the prisoner of the state. While the government is planning to upgrade the management of the BDM, the BDM s problems are more political than technical. Channeling more foreign aid funds through private banks might stimulate more competition and provide more capital to be recycled towards the private sector.

One of the main recommendations coming out of a June 1985 Colloque sponsored by the Malian government on the subject of how to reduce unemployment called on the government to require the banks to allocate 30 percent of its loans for medium and long-term productive investments. This resolution once again indicates the tendency of the private sector to call upon the state for assistance. One of the main problems facing the banking sector if it is to move towards complying with this recommendation is how to ascertain the creditworthiness of small and medium scale enterprises clamoring for loans. Without some guarantees, loans to the private sector may turn out as badly as loans in the past to the public sector.

6. Strengthening Private Sector Associations

In the past, the Malian government has thwarted the development of an organized private sector capable of defending its interests. Representatives from ther private sector should have a greater voice in decisions affecting the national economy. There is some evidence that the government has recently been paying more attention to the views of Mali's business community. However, there still is a tendency for the government to want to control the professional business associations.

There are two major organizations speaking for the business community in Mali: the Chamber of Commerce and the National Federation of Malian Employees (FNEM).

The Chamber of Commerce which, because of its status as an etablissement public, still remains a quasi governmental agency despite its formal mission of representing the interests of the business community. The Chamber of Commerce has two main sections, one for industry and one for commerce. The commercial section tends to represent the old-style Malian businessmen; the industrial section reflects more the views of the modern Malian businessman and the state enterprise sector. The Chamber also has branches in the regional capitals. Most of the Chamber's work is conducted in the capital. It sends representatives to most national economic commissions.

There is currently an effort to modernize the Chamber and to provide a more solid financial basic for expanding its activities. There is much that can be done in the area of training people for business and in disseminating economic and financial information to the business community. The Peace Corps, for example has run a very popular program on management and business law in Segou and Sikasso. The business law courses were particularly popular and demonstrated that Malian businessmen are interested in learning more about the rules of the game. Plans are now being made to expand the Peace Corps training programs.

The Chamber of Commerce still has little credibility among the more sophisticated members of Mali s modern business community because it is seen as being primarily a state organ rather than a truly independent representative and defender of the private sector.

The FNEM is a much newer institution. It was created in 1980 at the request of the government which needed a national federation of employers to represent Mali's private sector in the International Labor Organization in Geneva. The Federation is comprised of ten professional associations representing all the major branches of the economy with the exception of banking and insurance and agriculture. In the future, it will clearly overshadow the Chamber of

Commerce as an authentic voice for the private sector.

In the past few years since the introduction of liberalization policies, one has seen a sharp rise in the number of groups organizing within the private sector to disseminate information and to defend their group s interests vis-a-vis the state. The development of these groups represent a potentially powerful force in prodding the government towards further liberalization of the economy. These groups are also more geared towards the future. Their leaders are generally younger and better educated than those running the Chamber of Chamber. The emergence of autonomous professional business associations is definitely a positive factor contributing to the development of the private sector.

7. The Need for an Informed Public

For the institutional reforms mentioned above to have a more powerful effect, it will be necessary to make the changes now in process known to the state bureaucracy, the business community and the general public. Thus changes concerning pricing and foreign trade regulations should be widely diffused. In a similar manner. the business community should be made aware of their new rights and obligations and the implications of the Commercial Code in affecting the way in which they will do business in the future.

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Note: CNUCED has produced a wealth of documentation concerning foreign trade regulations, export promotion, pricing policies, development of the internal market, supply policies,and revitalization of commercial, transport, and insurance sectors. For more details, see the April 1985 CNUCED list of Reports for Mali.

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Presented by Malian minister.

3. International Montetary Fund. Mali-Recent Economic Developments, April 10,1985.

Recent update on Malian economy with usual IMF stress on fiscal and balance of payments issues.

4. The Futures Group. The Effects of Population Factors on Social and Economic Development. Bamako: October 1983.

Has section projecting social needs on the basic of population projections.

Recommendation: The USAID-Bamako mission should keep the materials listed in this bibliography together in a separate section in the documentation center for the EPRP program. The librarian might adopt the same classification system used in this bibliography. As more materials come in, the bibliography should be updated at least once every three months.

ANNEX G

COMPUTER SUPPORT AND OTHER COMMODITIES AND SERVICES

A. Introduction

In order to implement the Economic Policy Reform Program (EPRP) in Mali, the Government of the Republic of Mali (GRM) will require substantial assistance in computerization in various units of the Ministry of Finance, The Ministry of Employment and Civil Service, and the National Commission for Administrative Reform. Computerization of the payroll, utilization of a new budget classification and coding system, improved administration in the area of taxation, and Program monitoring will all, in some way, be tied to increased capabilities in the use and management of computers.

An EPRP consultant was thus asked to document the present computer equipment of the concerned GRM agencies and assess their capacities to carry out the automation programs they have proposed; to assess the equipment and training requirements related to the automation plans of the GRM agencies based upon the requests received by USAID and other available information; and to establish guidelines as to the acquisition of hardware and software, training requirements, and provision of technical assistance required, taking account of interagency systems interactions and the advantages of a phased automation program.

B. Computers in Mali

There is no centralized listing of computer installations in Mali, although it is clear that there are many micros as well as a few minis and mainframes in Bamako. Most computers in Government offices are from CII-Honeywell Bull. Microcomputers are beginning to be recognized as useful, but a pronounced attitude of centralization and control still prevails in official circles. In discussing the possibility of introducing microcomputers, talk inevitably revolves around hiring analysts and programmers, developing applications with BASIC, and linking all the systems together. This approach is, of course, opposed to the approach that has developed in recent years in places where microcmputers have been used more extensively.

In Bamako, micros are used primarily by a small group of expatriates. However, experience with and interest in microcomputers is growing among Malians. Many believe that a microcomputer could help them, although, with a few exceptions, they may have only a vague notion as to how.

1. Sales and Service

The only computer vendor represented in Mali is CII-Honeywell Bull, a company created through a merger of Honeywell Bull (formerly Bull-GE) and Compagnie Nationale de l'Informatique, a French government-owned company, in 1976. The company has 53 percent French ownership and 47 percent American (Honeywell Information Systems). The local Honeywell-Bull representative, Bokary Diallo, is a Maintenance Inspector and is associated with the CII-Honeywell Bull office in Dakar. Diallo provides service and maintenance for most Honeywell-Bull equipment installed in Mali. No other agencies have been identified that repair or service computer equipment in Mali.

2. The National Automation Plan

A National Automation Plan was commissioned by the World Bank in 1983 and carried out by the consulting firm, SEMA. The Plan lays out two parameters that determine the manner in which the country will be automated: the degree to which computer resources are centralized or dispersed; and the level of control by the government in questions of automation.

According to the Plan, there are three options for the allocation of computer resources (equipment, trained personnel):

- Resources can be centralized: all resources are used by the entire government as needed. This method minimizes costs, but is not flexible and does not allow for individual initiative in developing appropriate skills and systems.

- Resources can be decentralized: each administrative sub-structure carries out its own automation program and the central government only provides recommendations. The characteristics of such a policy are the absence of any standards, and, thus, each agency making its own decisions as to systems development, human resource development, and acquisition and use of computer equipment; or

- Deconcentration is the final option: here, national standards are set for systems development while allowance is made for equipment and personnel to be physically located as needed.

The second parameter is for government to formulate policies that are :

- Directive: the government decides how automation should occur, develops specific automation programs, and controls implementation of these programs in an attempt to make the best use of resources and assure an efficient and synergistic development of various automated systems; or

- "Laisser faire": the government makes no decisions concerning automation and develops no guidelines; or

- Indicative: the government develops guidelines concerning automation and provides assistance while allowing agencies to work out their own policies of acquisition, training and systems development within those guidelines.

The automation strategy recommended for Mali is moving from a directed/deconcentrated approach in the short term to the indicative/deconcentrated approach in the medium term to an indicative/decentralized plan in the long term. To accomplish this, both a policy-making body and an operational structure must be put in place.

The already existing National Computer Council can serve to develop policy. The Plan proposes that a Central Computer Office be created to carry out policy. The Central Computer Office would have as its role to pass judgement on all projects that introduce computerized systems into the bureaucracy; to assure adequate training; to provide information and support in the area of automation; to carry out studies for automation and to participate in the implementation of these plans; and to manage a National Data Center. The Office is to be placed under the Ministry of Plan, to be financially autonomous and profitable, and to operate like a consulting firm, charging for its services.

The Plan continues, laying out the types of skills and equipment that must be acquired, giving an introduction into needs analysis and systems development, and listing the automation projects that are under way and those that are priority projects.

The priority projects noted include:

- Economy et Finances
  - Customs and the Office of Economic Affairs
  - Internal Revenues
  - Budget
  - Treasury

- Civil Service (Personnel and financial management)

- Statistics and Plan

- Office of Posts and Telecommunications

- Public enterprises under the Ministry of Tutelle
  - Finance - Accounting
  - Personnel Management

- The Presidential Office.

Overall, the Plan is rather ponderous and is oriented towards large systems development. While the general directions of the Plan are of general interest and do not contradict the EPRP automation plan proposed below (the priority projects agree, for the most part, with those of EPRP), there is a distinct lack of acknowledgement as to the characteristics of microcomputers, their potential role in automation, and the manner in which automation has been affected in the U.S., Europe and even other developing countries as a result of the introduction of microcomputers.

In addition, the role proposed for the National Computer Office almost assures failure. While a central office that can provide information, guidance and training to agencies that are attempting to automate is a good idea, the degree of control given to the agency will likely render it ineffective. Once the Office has to approve each and every automation plan, its assistance will become either obstructionist or completely pro-forma and without value.

USAID should do everything it can to support the GRM in efforts to develop a resource center for automation efforts (such as the training center that will be developed in the Ministry of Finance and housed in the same building as its minicomputer), but should oppose any attempt to establish a centralized body that must approve every automation plan.

C. Situation Report and Review of Requests

1. National Bureau of the Budget

The National Bureau of the Budget (DNB) is equipped with 1 Osborne computer (64K RAM) with 2 disk drives and 1 dot-matrix printer that was provided by the IMF. It is operated primarily by the IMF Technical Assistant to the DNB, and his counterpart. They are using Supercalc, Wordstar and Mbasic.

The system has been used to develop monthly and trimestriel accounts of expenditures of the national budget, statistical analyses, Treasury operations, 1985 budget analysis, and consolidation of Treasury's account balances for the months of March through June.

The ease with which the team is able to generate reports and analyses is apparently eliciting great interest on the part of Malians in the DNB and Treasury. There are many others in DNB that would be eager to learn to use micro-computers. To this end, a request has been made of the World Bank Project 1307/MLF to provide 2 IBM-XTs and 2 printers.

Although the order has been placed, the exact configuration is not yet known. Nor is it known if a budget has been set for maintenance and supplies. Apparently, Knowledgeman, an integrated database management, spreadsheet, and graphics program, was ordered.

Given the importance of the computerization of the national budget to the EPRF, the interest in using micros already manifest within DNB, and the care given to micro equipment already in DNB, it is recommended that USAID supplement World Bank support by providing one additional (compatible) microcomputer system.

2. Central Payroll Office

The Central Payroll Office (BCS) is a division of the DNB and will be responsible for the administrative and financial procedures relative to the new automated payroll program. The first stage of developing the automated payroll program consists of conducting a physical survey of civil servants to confirm work place and payment site (Commission National de Controle des Effectifs). The survey of civil servants is in its final stages and the information will soon be available. In carrying out the survey, the BCS has been working with the National Office of the Civil Service (DNFPP) in the Ministry of Employment and Civil Service, the National Direction of Financial Control, the Treasury, and the National Commission on Administrative Reform (CNRA).

Most of the the development of the payroll program has been carried out by the CNRA, which has programmed the application in Cobol for the Honeywell-Bull DPS 62/60 located in the Ministry of Plan's National Statistics Office. Thus far, the CNRA (with UNDP assistance) has provided the technical assistance for the automation effort from the design stage through its present stage of development. CNRA is presently finalizing the program and simulations are being run on the 62/60.

Full and successful implementation of an automated payroll system will depend on a number of factors including the hiring and training of a BCS team on the new computer being installed in the Treasury (see below), translation of the present program to a format which can be run on the Treasury computer, the establishment of a weekly courier system to collect data from the Sous-ordonnancements (SOs), which are located in each of the 8 regions, and adequate budgetary support of the BCS as well as the regional and ministry-level financial offices.

There is presently no microcomputer equipment in the Payroll Office and no request has been made to USAID. Microcomputers could be used, however, to establish separate databases for regional and qualitative analysis of civil servants, especially while the Payroll application is still being run on the 62/60 in the Ministry of Plan. This machine is subject to other demands and is not physically in the BCS offices.

3. National Department of Internal Revenues

The National Department of Internal Revenues (DNI) requested 3 microcomputer systems of USAID at an estimated cost of $78,000. At present, an application developed on the GAMMA 10 in 1974 and transferred to the 62/60 of the Ministry of Plan serves as DNI's only automation program. The application outputs the "roles" and "avertisse-ments" and provides a few statistics. According to a consulting "Mission Informatique" of 1984, the statistics provided are not reliable, there are few checks on the system, and the system does not allow for extraordinary cases.

Another study on automation was done in 1980 with the DNSI and CNRA, but it was never implemented. The study, while focussing on the areas of DNI's activities that still require automation, was done at a time when mainframes were the only solution and is not particularly relevant at present.

DNI has no microcomputer users on its staff. Therefore, its request for micros should be looked upon in light of its importance in the EPRP. As automation of taxes was verbally made a condition precedent to IMF considering to provide technical assistance to DNI. It is also a very important element of the budget automation effort and better integration of revenue and expenditure information. Every effort should be made to help DNI to automate.

4. National Customs Office

The Customs Office (DND) has been equipped with 7 Micral 90/50 microcomputers by UNCTAD as part of the SYDONIA project (Systeme Douanier Automatise pour la Saisie, le controle et la gestion des donnees douanieres, statistiques et comptables) which intends to automate the customs services of the members of CDEAO. A program was written by UNCTAD staff for use in Mali and is supported out of UNCTAD headquarters in Geneva.

The micros have been placed in 4 sites: BNTRE (Bamako), Faladie, Segou, and STI. At present, only two sites, BNTRE and Segou, are operational. At STI, 2 hard disks and 2 screens have been down since March, while at Faladie a generator is needed. Equipment repair has been a problem. Apparently, UNCTAD decided that the local Honeywell Bull vendor was too expensive and gave a maintenance contract to CAI, a firm in Abidjan. Response has been less than satisfactory. The contract expires in August, when it is expected that a contract will be signed with CII-Honeywell Bull Mali.

Two sites were visited: BNTRE and STI. Both sites were unacceptably dirty and basic general maintenance routines were apparently lacking. Both systems were down at STI, located behind the Central Customs Office. The machine at BNTRE was functioning and was said to be operating 20 hours per day. The operator complained that it took 11-14 minutes to enter the data of one form into the computer. In addition, she commented that the recent modified version of the program sent down from Geneva catches fewer errors than the original version.

DND is dependent on the programmers in Geneva for any modifications that need to be done to the program and apparently getting a response from them has been very difficult and slow. A version 2 is supposed to be delivered in December. In the meantime, the technical assistance personnel from UNCTAD at the DNAE have made a few modifications that have brought the data entry time down to about 6 minutes per form. This consultant commented that the programming, which is in a CPM BASIC on the PROLOGUE operating system, is rather cumbersome. Version 2 is being done on BAL under PROLOGUE.

Further complaints have been voiced about the program output, which are not flexible enough to meet DND's basic analytical needs. All in all, the system appears to be somewhat of a disaster, though not without potential. Further discussions with UNCTAD/Geneva are absolutely essential to see what their conclusions have been and what their plans are relative to further automation of DND.

DND requested that USAID furnish 7 systems to put out in the regional offices at a cost of about $100,000. At this point, it would be pointless to support any automation program at the DND without carefully defined conditions precedent and close oversight of installation and operations.

5. National Office of Economic Affairs

Presently, there is one Micral 90/50 in the National Office of Economic Affairs (DNAE). It is in a clean, isolated, well air-conditioned room and is apparently in good working order. It is being used by a statistician and an expatriate technical assistant who is familiar with the system.

DNAE's initial request was for an additional Micral 90/50 for its central office and one for each of its regional offices, for a total cost of $86,881. In addition, DNAE requested provision of maintenance, training, and technical assistance.

Upon further discussion, however, DNAE acknowledged that it was, perhaps, premature to expect to give assistance to the regional offices until a body of experience and expertise had been established in the central office.

A revised proposal was submitted in which DNAE requests microcomputers, compatible with their Micral 90/50, dot-matrix and letter-quality printers, and spreadsheet, graphics, database management, and word processing software for the Office of External Trade and the Office of Internal Trade and Prices. DNAE is also requesting training on the microcomputers and software packages .

Given the care shown the system in place, USAID should consider complementing their existing equipment in the central office to allow them to proceed with the program presented in the request.

6. Treasury

The Treasury (DNT) has no experience with microcomputers other than that of observing the results obtained with the Osborne in the DNB. Though USAID has received no official request, DNT has expressed interest in obtaining micros and in having a training program for their personnel.

The FAC is in the process of providing the DNT with a Honeywell Bull DPS 6, a minicomputer. It is recommended that USAID give the DNT micro-computers to devolve their proprietary attitudes from the mini to the microcomputers to allow for a more equitable use of the DPS 6 by the entire Ministry of Finance. This is discussed in considerably more detail below as it forms the core of the overall automation plan for EPRP support.

7. National Commission for Administrative Reform

The CNRA has been providing most of the technical support to the BCS in developing a program to automate the national payroll. CNRA will be critical in managing the transition period during which people must be trained to run the program on the DPS 6 in Treasury while the program is simultaneously run on the 62/60 at the Ministry of Plan.

The CNRA has also developed a basic application of the automated personnel management application for the public sector for the Civil Service Office. There is, however, the possibility that the CNRA will be limited in its capacity to support any future automation efforts as several key staffers are scheduled to leave and not to be replaced.

8. National Office of the Civil Service and Personnel (DNFPP)

This agency has picked up the work that was being done by CNRA on the development of an automated personnel management program for the public sector. The effort is being supported by the World Bank, with Technical Assistance provided through the UN/DTCD. One of the overall aims of the project is to automate the procedures of Civil Service management in general. About $115,000 was provided for equipment in the original budget. The technical assistance (one person) has been trying to double this figure in order to develop a full-scale automation plan. He is hoping that by September, he would be in a position to work with the UN expert presently in Niamey to develop a microcomputer-based program for personnel management.

There are several problems associated with this program. First, there is some question as to whether the Ministry of Employment and Civil Service will collaborate with the Ministry of Finance in developing their automation plan or whether it will insist on separate equipment. Second, the database still contains fundamental errors, e.g., duplicate "unique" identification numbers for several civil servants. This has obvious implications for automation of the payroll, of course, and will need to be worked out jointly with the Ministry of Finance.

If a collaborative style is not adopted, the situation could lead to a divergence in the data bases from which personnel management and payroll management operate. This would be working against the aim of regularisation of public administration that is an aim of both projects. The Director of DNFFP must be made aware of the importance of developing a shared database in which each Office would maintain responsibility for certain fields within each record. This should be followed up on by USAID in the context of EPRP automation.

No request has been received by USAID from DNFP but it is clearly related to other applications for which requests have ben made.

D. The Treasury Mini-Computer, the DPS 6

The GRM has received a grant from French Cooperation (FAC) that is providing a minicomputer -- a Honeywell-Bull DPS 6, (most of) a building to house it, and training Treasury personnel. This grant is central to the entire automation plan that is presented here. While use of the minicomputer creates a certain dependency that an entirely microcomputer-based system would not have, it also allows for greater flexibility in the scope of automation and analysis that can be carried out.

Discussions with FAC, CNRA, Treasury, and the other offices in the Ministry of Finance indicate that the DPS 6 would be both suitable for certain applications throughout the Ministry and, with modifications, capable of handling the Ministry's major applications if complemented by microcomputers.

To assure that each Office's applications will be able to use the DPS 6 to meet its own needs, each service will eventually have its own team to develop and manage DPS 6 applications. To assure that each Office has access to Ministry-wide data for analyses as required, microcomputers will be placed in each Office that are capable of downloading data from the DPS 6 for subsequent analysis.

The minicomputer, a Honeywell Bull DPS 6 (a successor of the Mini 6), is of the following configuration:

- central memory of 1,024 K
- one disk drive of 5.25"
- 2 hard disks of 64 MB
- 1 hard disk of 8 MB
- 5 data entry stations
- 1 console
- software, including
  - Gcos 6 Mod 400 operating system
  - COBOL A
  - DTF TRANSAC

Though none are provided for in the FAC grant, the Honeywell Bull Micral 30 microcomputer can act as a work station for the DPS 6 and can act as a data transfer point between the DPS 6 and other microcomputers. A building is presently being constructed on the grounds of the Treasury. The building will house the computer on the ground floor. In addition to the computer room, there will be a control room, a data-entry room, a coding room, an office for the Computer

Center Manager, an office for the maintenance contractor's representative, an additional office for temporary work, a supply room, and a room containing the uninterrupted power supply and the back-up generator.

The second floor will house a training center in which courses can be held in applications development, data transfer to and from micros, and data entry.

The third floor will contain the offices of the Payroll Office. These offices will be self-contained to guarantee the autonomy and uninterrupted implementation of the payroll application. FAC funding did not cover the construction of this floor, which was to have been the Malian contribution corresponding to FAC's financing. Treasury has made an informal request to USAID to finance this (estimated at 25 million FCFA). The consultant recommended, however, that USAID not consider becoming further involved in the construction (or operation) of the minicomputer center.

Completion of the construction phase is estimated to be in October of 1985 and the building is expected to be completely equipped by the end of the year. Conservatively, though, full operation of the center should not be expected before mid 1986.

Treasury expects that the priority applications will be:

- national budget
- payroll
- tax recovery
- customs recovery

These applications involve, respectively, the DNB, BCS, DNI, and DND. The development of all of these applications are central to the EPRP, and the automation of the national budget is a condition precedent to releasing certain funds under the project.

The actual applications developed by each Office must be based upon more detailed analyses. The actual timetable for each Office to begin using the DPS 6 will be subject to training a DPS 6 team and establishing a full applications development program.

FAC is providing training in France for two analyst/programmers and 3 programmers for the Treasury. Data entry clerks will be trained locally by Honeywell Bull. To assure each Office's control over its own applications, similar teams must be trained in each Office. Priority should be given to the BCS in order to assure that the Automated Payroll Program is up and running as soon as possible.

Given the importance of being able to download data from the DPS 6 to micros, Micral 30s should be purchased for the operating room and for the training center.

In reviewing plans for the installation and operation of the DPS 6, several other issues have come to the fore as potential problems:

- The back-up power system is inadequate. The battery back-up only provides 10 minutes of power once the main power cuts off. In addition, there is no automatic switching on of the generator when the main power cuts off. It seems well within the realm of possibilities that whoever is responsible for turning on the generator in an emergency situation might take longer than ten minutes to do so. If there is any problem starting up the generator, or if power consumption was only slightly under,estimated, the problem becomes even more critical. It is recommended that a device be purchased that will automatically start the generator in case of power outage. Also, the back-up time provided by the UPS should be extended if possible. Given that there has been some shaving of expenses in this area, it should be verified that the 37 KVA generator is adequate to meet the power requirements of the system.

. The FAC grant will cover only the first 6 months' maintenance contract. The annual contract is estimated at 10 million FCFA ($22,000). In discussions with Treasury, concerns were raised that the direction might not be able to get money in its budget to cover this cost, especially in the next budget. In opening up the computer to Ministry-wide applications, the argument was advanced that maintenance costs should be borne by the Ministry. This brought Treasury more firmly into our concept of the Ministry minicomputer with microcomputer centers in each Office, but raises the necessity to assure that the Ministry budget the $22,000 annually. Written assurances should be obtained before USAID invests in any DPS 6 equipment. The continual operation of the DPS 6 is absolutely essential to a successful implementation of the automated payroll program.

. The automated payroll program is currently being developed on the Honeywell Bull 62/60 at DNSI. There is no alternative to the 62/60 until the DPS 6 is in place. However, to assure that there is no time lost in establishing the program on the DPS 6, the program must be converted to the DPS 6 format as soon as is possible. Presently, the Treasury's DPS 6 is operational in France, where it is being used to train programmer/analysts from Treasury.

It is recommended that copies of the program on the 62/60 media be sent to the France to be converted to DPS 6 media and run on the DPS 6. If possible, the BCS team should be trained on the DPS 6 at the same time as the program is converted and updated to take advantage of the capabilities of the DPS 6 (e.g., the present program enters data by batch processing, whereas the DPS 6 allows for more interactive programming).

Certain programs presently running on Micral 90/50s may be more efficiently run on the DPS 6 due to the intensive nature of data input and the size of the database. For example, the DND may decide to enter its import license data on the DPS 6 and download the data for specific analyses on the Micral 90/50s or other microcomputers. This may help cut the time required for data input during which the micros are tied up and not available for other applications.

E. The Microcomputer Centers

To assure that each Office in the Ministry of Finance should have access to the data collected by other directions and entered into databases in the DPS 6, microcomputer centers should be established in each of the Offices. Each micro center should have at least one Micral 30 to act as an interface with the DPS 6 and with Micral 90/50s as needed. There should be at least two micros in each center to assure uninterrupted operations. All centers should be equipped with UPS systems. USAID purchases should, of course, take account of micro purchases by other donors.

In addition, micros should be placed in the Civil Service Office, the CNRA, and the training center on the second story of the DPS 6 building. One microcomputer system should be provided for the USAID technical assistance.

Each micro center is expected to have applications for statistical analyses, database management, spreadsheet analyses and word processing. Initially, the same software packages should be purchased for each site, including a collection of utilities. Funds should be set aside for additional software purchases once experience has created specific needs beyond the initial package.

No microcomputer equipment should be released without the assurance that adequate preparation has been made for the sites, including: a clean room dedicated to microcomputer use free of dust and air-conditioned; staff designated as operators and for whom assurances have been obtained that they should be released from their duties for initial training and for regular follow-up training; a budget officially approved for supplies and mainten ance. These conditions should be verified and release of equipment for installation approved by the long-term computer specialist.

E. The Transition Period

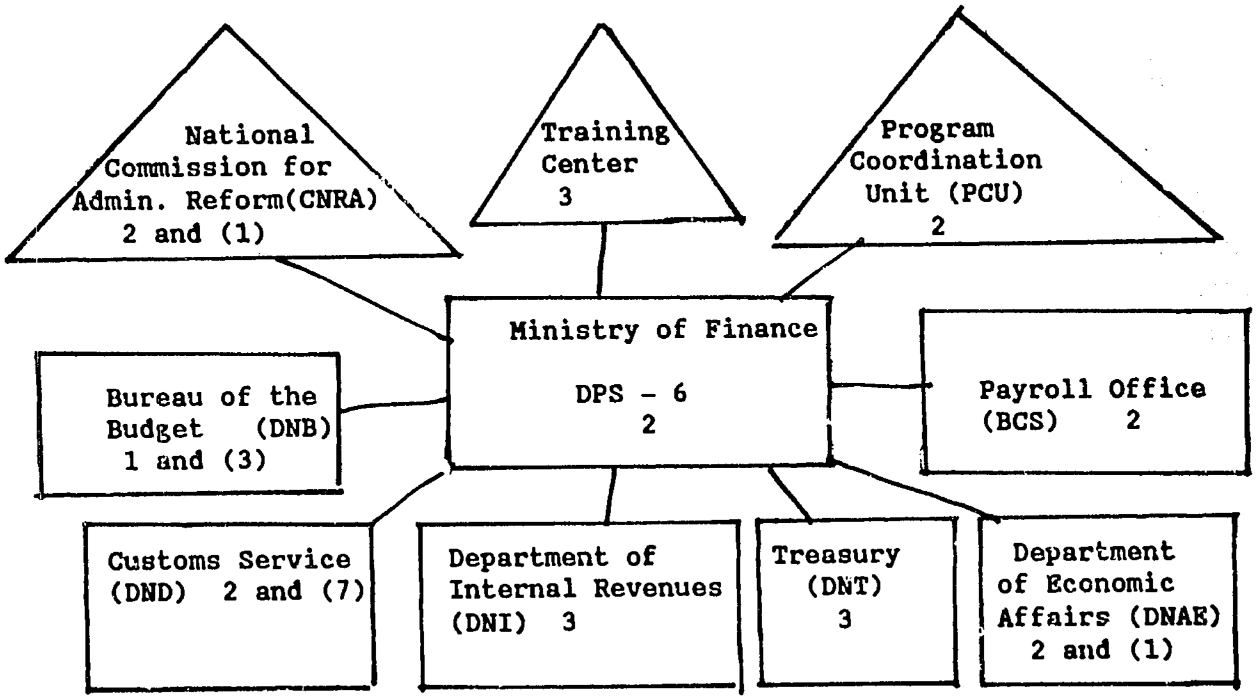
The DPS 6 is not likely to be operational before mid-1986. The earliest microcomputers funded by EPRP can arrive is probably November 1, 1985. The EPRP requires that certain functions be automated as conditions precedent to the release of funds. It is important that any automation strategy take account of these priorities.

1. Automation of the Payroll

Presently, the payroll application runs on the Honeywell Bull 62/60 at the Ministry of Plan. The program is supported by CNRA staff. The application is probably too large to efficiently develop on a microcomputer (a payroll of over 50,000 persons), which means that efforts must be concentrated on readying staff and equipment for a transfer to the DPS 6 as soon as it is fully installed.

This task of continuing the development of the application on the 62/60 is likely to be complicated with the departure of CNRA staff in the near future. In addition, though performance has been better in recent months, there is always the possibility of breakdowns with a machine as old as the 62/60. Support in the form of a fund to purchase needed parts and pay for air shipment could do much to minimize down time. Repairs are done by the

Figure 1. Proposed Micro-Mini Computer Network



Key: _________ Data paths
n = number of micros to be financed by EPRP
(n)= number to be financed by other donors

△= training and support centers

Honeywell Bull representative, who has an office on the premises of the 62/60 installation.

A BCS automation team must be formed to run the payroll application on the DPS 6. At present there are 2 programmer/analysts, 1 operator, and 2 data- entry clerks working on the project. To get through the transition period, two teams will be needed. This will require hiring a Project Team Leader (information management specialist), 2 programmer/analysts, and 2 data-entry clerks. The team also needs a technical assistant to act as a counterpart to the Team Leader. After the 18 month transition period, 2 of the programmers could be used to develop other applications on the DPS 6.

The project manager/analyst and programmers must be trained beginning in the latter half of this year. FAC has indicated that it does have some training grants available. The Ministry of Finance should make a request to FAC to provide the necessary training.

In addition, USAID should encourage the Ministry of Finance to hold discussions with UNDP to get training under the Administrative Reform Project that presently provides 8 technical assistants to the CNRA. The Chief of Party expressed confidence that he would be able to secure training for a group of 4 or 5 BCS staff if he had the details to put into a request to UNDP Headquarters. Details of the training program to be undertaken by FAC for the Treasury will be communicated to UNDP at CNRA.

Finally, the program must be transferred to DPS 6 media and updated to take advantage of the capabilities of the DPS 6. Methods of conversion must be identified and the costs of the process determined. It must be determined whether FAC will finance the conversion and reprogramming or whether USAID will have to support the costs of the conversion process. UNDP has indicated interest in financing the conversion in its continuing assistance to the automation of the budget (provided costs do not exceed its budget). This information will also be transmitted from Paris to UNDP/CNRA by the Consultant.

2. Automation of the National Budget

The DNB is to automate the national budget as a condition precedent to the release of certain funds under the EPRP. This application is fully realizable with a microcomputer given adequate storage and the right software. The two IBM-XTs ordered for DNB by the World Bank and Knowledgeman, a software package with database management, spreadsheet and graphics modules, will be adequate for the automation effort. The technical assistance provided by IMF is skilled enough to develop the budget application and teach other users in DNB how to use the application.

F. Coordination with Other Donors

As is evident from the previous discussions, the automation program of EPRP must be integrated into the efforts of other donors. The most evident donor is FAC, which is financing the installation of the DPS 6, construction of a building to house it, the first 6 months' maintenance contract, and training of a Treasury team. Discussions are ongoing to determine if FAC is willing to train a BCS team at the same time. In addition, FAC should be requested to provide a technical assistance to work in the DPS 6 center, providing training and assistance in the Ministry's applications development efforts. FAC has already provided a microcomputer expert to assist DNAE to develop microcomputer applications on the Micral 90/50 provided by UNCTAD.

A UNDP team has been working with the CNRA to provide assistance in GRM's effort_ in the area of administrative reform. Technical assistance in this project has been working to develop the Automated Salary Payment Application on the 62/60. The CNRA would continue to support BCS in its efforts to implement this application on the DPS 6. If the same training site used by FAC for Treasury personnel could also train the BCS team, UNDP has indicated willingness to seek financing for the course.

UNCTAD has provided 7 Micral 90/50s to DND for the Sydonia Project, one Micral 90/50 to the DNAE, one Micral 90/50 with a work station to the Centre Malien du Commerce Exterieur, and one Micral 90/50 to the Chamber of Commerce. UNCTAD has provided training and technical support in the context of a project looking at Mali's trade sector and the effects of Mali participating in CEAO. There are still revisions to the Sydonia program to be sent from UNCTAD/Geneva. The project leader in Geneva will be contacted to determine UNCTAD's conclusions resulting from its experiences thus far.

The World Bank is providing 2 IBM-XTs to the DNB and is working with DNFPP. The World Bank also financed the study that led to the development of the National Information Plan.

The smooth implementation of the various automation efforts rely a great deal on outside assistance. However, any automated system must have regular maintenance. While microcomputer systems are fairly hardy, given adequate environmental protection, there still must be a basic budget for operations and supplies. Minicomputer systems must have a maintenance contract if operation is to be guaranteed. FAC is paying for the first 6 months of the DPS 6 maintenance. USAID/Bamako should require evidence that the GRM can provide for the maintenance of the computers put in the Ministry of Finance before releasing any microcomputers.

Another GRM responsiblity is to appoint a team that will work in the BCS on the DPS 6. This team must be appointed before September if it is to be trained with the Treasury team.

G. Implications for Procurement

1. The Minicomputer

a. Hardware

Most of the costs of the DPS 6 and its installation are being covered by a grant from FAC. This includes purchase of the DPS 6 with 5 work stations, one 5.25" disk drive, 3 hard disks with a total of 136 MB, 1 console, a 37 KVA diesel generator and a UPS with a maximum of 10 minutes back-up, air)conditioning for the ground floor, and a limited amount of supplies.

Where USAID support will be critical is in providing equipment that will serve to redefine the DPS 6 from "the Treasury's computer" to to "the computer of the Ministry of Finance".

Specifically, what is required are extra work stations and outlet cards to assure access by all Offices and Departments. There is room for two more work stations under the present configuration. Two outlet cards must be purchased to provide connections for another 8 work stations. The configuration will then be 8 work stations in the data entry room next to the computer room, 3 in the training center on the 2nd floor, and 4 in the BCS office on the 3rd floor. The BCS office will need 2 split-system air-conditioning units as none is provided for in the FAC grant.

As mentioned, the back-up power system lacks an automatic cut-on, which is essential to assuring the center's uninterrupted operation.

b. Maintenance and Supplies

A maintenance contract for the DPS 6, estimated at $22,000, will be provided by FAC for the first 6 months. Thereafter, it is to be provided by the Ministry of Finance. It must be confirmed that the Ministry is comitted to meeting this cost. Maintenance will be handled by the resident Honeywell Bull agent who will have an office on the ground floor of the computer center.

As FAC is providing a limited budget for supplies, USAID must verify that the Ministry of Finance will provide an adequate budget and that the DNB will adequately support the BCS office.

c. Conversion

The programs presently running on the Honeywell Bull 62/60 must be converted to run on the DPS 6 and modified to take advantage of the full capabilities of the DPS 6. CII-Honeywell-Bull has agreed to develop cost estimates for the conversion and will communicate them to USAID/Mali via the design consultant as soon as they are available.

2. The Microcomputers

a. Hardware

Microcomputers should be provided to 9 microcomputer centers, the DPS 6, and the USAID technical assistance (Figure 1). Two Micral 30s should be connected directly to the DPS 6 and should function as work stations and data transfer points to the micro centers. To assure compatibility, each of the 9 centers should be provided with a Micral 30. The remaining micros purchased by USAID should be IBM-PCs. The Micral 30 emulates the IBM-PC under PROLOGUE and both reads and writes 360K diskettes.

For each center, a printer should be purchased for each micro-computer. Each center should have a high speed 250-300 cps dot matrix printer capable of near letter quality (such as an Epson LQ 1500 or the Toshiba P1351). Medium speed 100-150 cps dot matrix printers (such as the Epson SX-100+, the Inforunner Riteman 15 or the Star Micronics SB-10 or SR series) should complete the configuration. Printers must be capable of printing the IBM character set and should be one of the configuration choices on the software packages purchased (to guarantee easy installation). As models are changing rapidly, these suggestions should be checked against product descriptions at the time of procurement.

Uninterrupted power supplies (UPS) providing at least 30 minutes of full operation in case of power outage should be purchased for each center, though no more than 2 systems should be on any one UPS.

The Micral 30 can come configured with 256K RAM, one or two disk drives of 360K, a hard disk of 10 or 20 MB, and a monochrome screen. Recently, Micral has come out with a 57 MB hard disk with a streaming tape back-up. This is a move away from Micral's tanklike approach to systems design. The various Micral 30 configurations should have a serial and a parallel port. The possibilities of configuring the Micral 30 with add-on IBM-compatible peripherals that might be less expensive should be investigated.

The IBM-PC should have at least 512K RAM, serial and parallel ports, 2 360K disk drives, and an amber monochrome monitor. A hard disk sytem providing 30-40 MB of storage and a cassette back-up should be provided for each IBM. The system should allow for both streaming tape and file-by-file back-up. The Micral system should be functionally similar.

3. Software

Software packages are available for almost all applications that can be anticipated under EPRP. While most applications will be developed on one of the core programs, it is entirely possible that needs for specific packages not mentioned will be identified as skills develop. One way to assure access to packages outside the core recommendations is to hold back about 10% of the funds allotted to procurement of software and to disburse it on an as needed basis in response to specific requests.

The importance of procuring French language documentation and programs cannot be overemphasized. Malians will find it very difficult to simultaneously improve their English and learn a set of skills that are difficult in themselves.

The ease and economy of acquiring software in the U.S. works against procuring outside the U.S. However, many of the major software packages have been translated into French (each program must be examined to determine whether all screens and documentation have been translated or whether just a French manual has been attached to the package). An effort must be made to open channels into the French software market. Software packages that have been translated into French or are in French include:

MS-DOS	Supercalc3	Volkswriter	Friday
Sidekick	Multiplan	Wordstar	Symphony
Prokey	Lotus 123	WordPerfect	Knowledgeman
	Visicalc	Easywriter	Dbase III
		Textor	Framework
		Word	Open Access
			Multilog

Minimum standards should be established for microcomputer system capabilities, formats and files to facilitate communications and sharing of data files between computers as is foreseen under EPRP.

Of primary consideration is that all software programs read and write ASCII files either directly or through the use of a conversion utility. Where files are to be routinely inter-changed, such as a statistical package reading the data files of a database management program, the program should be able to read the files directly, without the necessity for conversion.

While MS-DOS has become the de facto standard for business and management applications in the US, and is becoming so in West Africa as well, work done on other operating systems should not be lost to generalized use. Utility programs that convert files between formats should be a standard tool for microcomputer systems.

The standard package should contain:

- an advanced spreadsheet package with graphics such as Lotus 1,2,3 or Supercalc 3
- a relational database management package with programming language such as Knowledgeman or Dbase III
- PC-File, Friday, Please, or similar straightforward, user-friendly database management system,
- a complete word processing package such as Wordperfect
- a statistical package such as SPSS or NW Statpak
- utilities such as Copywrite, a spreadsheet checker, Norton Utilities, Sideways, and an assortment of public domain utilities.

In addition, several economic forecasting and simulation, project management, and financial analysis programs should supplement selected packages. Need for these and other packages will be determined by the technical assistants.

4. Maintenance and Supplies

Equipment such as maintenance manuals, logic probes, diagnostic boards and disks, ohmmeters, disk drives, tool kits, cleaning kits, blank disks, disk storage boxes, and paper should be ordered, in bulk where possible, to complete the systems and to allow local maintenance for all but the most complicated breakdowns.

Each manufacturer should be contacted to determine the parts most often required for repairs. Often the manufacturers have kits containing these parts. One kit should be ordered for each 3 or 4 machines and kept with the Program Coordination Unit (PCU).

Users of microcomputers need to be plugged into the world of user-oriented literature of journals and user-group publications and the microcomputer market literature of new software usage and hardware accessories. Though most is in English, there is a growing body of literature in French. To encourage the development of the local user knowledge-base, USAID should provide subscriptions of selected periodicals to each micrcomputer installation.

5. Services

The interface between the Micral 30 and the DPS 6 must be assured. According to Honeywell Bull in Dakar, the Micral 30 can act as a workstation for the DPS 6 (for entering data into the DPS 6 and extracting data from the DPS 6 for use on the Micral 30s) provided the Micral 30 has an asynchronous serial port.

In addition, the Micral 30s must be as compatible as possible with the Micral 90/50s that are already installed in Mali. Once again, Honeywell Bull has assured us that the machines are compatible under PROLOGUE. However, as the Micral 90/50 disk drives read and write 600K while IBM-PC compatibles use 360K drives, the Micral 90 can read Micral 30 disks written under PROLOGUE but not the reverse. There are, however, utility programs to convert files between PROLOGUE and MS-DOS.

G. Implications for Training and Technical Assistance

The installation of the DPS 6 and the microcomputers by AID and other donors brings with it the need for training in hardware operation and maintenance, general software manipulation, applications development and data entry. This section inventories training requirements, existing training comittments, and those areas that comittment needs to be secured.

1. The DPS 6

The DPS 6 will be running several important programs within the scope of EPRP. The programs that the DPS 6 is already scheduled to handle include the national accounts, payroll, and tax collection. To that will eventually be added national budgeting, customs receipts, personnel management, and pricing analyses.

FAC is presently training, in France, 2 analyst/programmers and 3 programmers within the Treasury. Operators will be trained on the DPS 6 in Mali by the vendor. The analyst/programmers are being taught on the Treasury's DPS 6, which is set up in France, and on which the Treasury's major application is being developed. At present there are no provisions for further training on the DPS 6.

BCS will have an office on the third floor of the DPS 6 computer center. It is absolutely essential to the success of the automated payroll application that BCS has its own team to manage its own program. This means that training must be provided immediately for at least one Project Manager/Analyst and 2 programmers. Operators can be trained at the same time Treasury's operators are trained. The second half of the team can be trained once the DPS 6 has been installed.

Training on the DPS 6 for Malians must take place in France. FAC has mentioned that there are scholarships available and that they would consider providing a limited amount of training on the DPS 6. UNDP, through its project with CNRA, might also be able to provide training. It is critical that an agreement be worked out soon whereby FAC and/or UNDP agrees to train the BCS team in time for them to be present for the DPS 6's startup in Bamako.

Other teams will have to be trained for the other departments in the Ministry of Finance as well as for DNFPP and CNRA. Though their training must be assured, the timing is less critical.

2. The Microcomputers

a. Approach

Microcomputer training is very different from the training given to DPS 6 analysts, programmers, operators, and data entry clerks. On microcomputers, a user must be both analyst and operator as well as data entry clerk and, to a certain extent, programmer.

FAC suggested that a three-stage training program be considered for introducing micros on a large scale. Apparently, FAC used this strategy in Togo with great success. The program was carried out by Elyos, a private firm in Abidjan, for 20 million FCFA. The three stages were as follows:

- A large, open seminar whereby the public is exposed to microcomputer concepts and applications;
- Specialized training for users in specific software packages; and
- Individualized instruction at the service level.

In fact, the equivalent of the first stage was recently funded by USAID/Niger and carried out by Thunder and Associates with the Ministry of Plan. The three day seminar was presented to middle and upper level GON officials who were, for the most part, not microcomputer users. Presentations were given on generic microcomputer programs and Nigeriens presented applications that they were running on their own systems.

This type of seminar might be useful in Mali with one caveat. The manner in which micros are used reflects a strong mainframe bias. This bias is one which will have to be overcome in training users.

It is anticipated that there will be an average of two users per machine, including those provided by other agencies, to train. The strategy chosen for training at least 50 users, who will develop skills at varying rates and to different degrees, is to provide one Microcomputer Systems Expert for a period of 18 months and to have a Microcomputer Software Trainer in-country for nine-months over a two year period.

b. Long-term Technical Assistance

A Microcomputer Systems Expert, or "Automation Specialist". should arrive before the first shipment of microcomputers arrives in Mali. Upon arrival, the Specialist should identify existing micro sites as completely as possible and inventory the microcomputer resources within the agencies with which he will be working. Simultaneously, the Specialist must identify the potential users within these agencies.

The Specialist will provide each potential micro center with a list of conditions that must be fulfilled before any equipment will be released (clean, painted, and sealed room; users identified and allotted time for training; budget available for repairs, operating costs, and supplies).

The Specialist will approve the release of material; oversee installation of the microcomputers; train users in micro operations and basic maintenance; develop basic mainten,ance and back-up procedures; assist in developing applications within each micro center; try to work with any local users groups (such as the one supported by the UNDP Expert attached to the Chamber of Commerce, see Attach-ment 8); and in general be available as a resource to micro installations supported under EPRP. The Specialist will coordinate his efforts with Specialist that is provided by other donors.

Initially, the Specialist will oversee the installation of the micro-computer systems. Training must begin with familiarisation by the potential user with the system. To the extent possible, users should be present for, and participate in, the installation of their microcomputer systems. This will give them a direct knowledge of the configurations, components, and connections that are unique to microcomputers.

Once systems are installed, the Specialist will give both group and individual instruction on the basics of the various software packages with the aim of getting users to the point where more specific instructional needs can be identified. Once this point has been reached, the Specialist will arrange for the Micro Training Expert to come in to provide more specific training.
The Specialist will provide assistance during the development of applica-tions by the users, but will not develop applications for them. The Specialist will also monitor conditions under which the micros are operating and report any irregularities to the EPRP Program Coordinator.

c. Short-term Technical Assistance

The Microcomputer Training Expert should be available for 9 trips of 3 weeks each over a period of 2 years. As mentioned above, the Trainer will come to Mali at the request of the Microcomputer Systems Expert prepared to give 2 or 3 seminars of 3 or 4 days each on specific software packages. The long-term Specialist will advise the Trainer of the problems encountered by users and the areas they need help in.

Upon completion of the seminars, the Trainer will be available to work with smaller groups, either an office or a small group with similar specific interests. The Trainer will leave behind recommendations for actions to be taken. By assigning specific areas of expertise to individuals, the Trainer will attempt to build up a user network that can rely upon its members to develop solutions to problems encountered while using software and developing applications.

H. Computer Procurement Summary

The basic procurement list, with all costs estimated in U.S. $ (450 FCFA = U.S. $) is as follows:

1. Microcomputer-related equipment

- 11 Micral 30 microcomputers w/256K RAM, 2 disk drives (360K), min 10 MB hard disk, asynchronous serial port, AZERTY keyboard and monochrome screen, 220V/50HZ........................ $ 61,111

- 12 IBM-PC (or compatible) microcomputers w/512K RAM, 2 disk drives (360K), serial and parallel ports, clock/calendar, 220V/50HZ. ....$ 42,000

- 12 35MB hard disk systems w/cassette backup, 220V/50HZ ....$ 42,000

- 22 Dot-matrix printers, 220V/50HZ ....$ 17,600
- 11 Uninterupted Power Supplies, w/built- in converter, if necessary (600-1,000 VA) ....$ 11,000

2. Minicomputer-related equipment

- 10 Work stations for DPS 6 .... $ 22,222
- 2 Cards to accept work stations .... $ 2,222

- 1 Automatic cut-in switch for generator ....$ 1,500

- 2 Split-system air-conditioners for BCS office.............$ 5,000

- Other equipment to be identified..........................$ 5,000

3. Software

- 19 packages each containing:
  - -- spreadsheet w/graphics ($650)
  - -- relational database management program ($700)
  - -- word processing ($500)
  - -- statistical package ($700)
  - -- assortment of utilities ($200)
  - -- basic database management program ($300) and

- 5 economic forecasting and simulation packages; and
- 5 financial analysis packages ($700) plus

- fund for special packages to be identified ($3,000)

4. Allowance for installation, maintenance, supplies of micros for 2 years .... $ 60,000

I. Other Commodities and Services

1. Technical Assistance

The Automation Specialist will be attached to the Program Coordination Unit (PCU) and will thus have to work in harmony with the Program Coordinator assigned to the PCU by USAID/Mali. It is recommended, therefore, that USAID/Mali seek a single contract firm which can provide both technical assistance and procurement services.

The Program Coordinator's role is described in detail in Annex I. The principal activities of the Automation Specialist and the Computer Training Specialist are described above.

The procurement services which should be provided by the contract firm (possibly an 8(a) firm, as described in Annex I) will be largely concentrated in the initial months of the Program implementation. There will, however, be some additions to be made throughout the life of the Program and both specification and procurement of these items will be the responsibility of the Automation Specialist, backstopped by the contracting firm's resources. Organizing for training sessions will also be part of the scope of work for the Automation Specialist when the training is to be focussed on computerization; the contracting firm is expected to backstop the Specialist in identifying appropriate trainers and procuring pedagogical materials as needed..

In sum, technical assistance requirements for the Program as a whole will be:

- Long-term (24 months) of Program Coordinator
- Initial Program Coordinator (up to 12 months);
- Long-term Microcomputer Systems Expert, 18 months;
- Short-term Microcomputer Software Trainer, 9 months over 2 years; and
- Unallocated short-term consultants, 11 months.

2. Other Commodities

- Office Equipment and supplies, training materials for TA $13,000
- Computer Magazines and books .... $ 1,600
  10 subscriptions @ $20
  4 subscriptions @ $25 for 9 centers - 25 books @ $20

- Office supplies for Program Coordination Unit:............$ 30,400

  Typewriter
  Chairs
  Desks
  Tables
  Photocopy machine
  Microcomputer and printer (IBM compatible)
  Vehicle, POL
  Miscellaneous supplies (paper, pencils, etc.)

- Freight (25% of computer hardware) $50,000

More detail on each of these commodities and services is given in Table G-1 attached here. Approximately $1.3 of Program funds have been allocated for procurement of these goods and services. PM & R and complementary DA resources will be programmed to cover the remaining $450,000.

Table G-1. Commodities and Services for the Economic Policy Reform Program in U.S. $

	FY 1985	FY 1986	FY 1987	TOTAL
Start-Up (Local Hire)				
LOCAL HIRE/PROCUREMENT				
Interim Program Coordinator	20000	50000	-	70000
Commodities (a)				
1 typewriter	1000	-	-	1000
10 chairs	2000	-	-	2000
5 desks	2500	-	-	2500
3 tables	300	-	-	300
1 xerox	3500	-	-	3500
1 compaq	2500	-	-	2500
1 printer	600	-	-	600
supplies	5000	-	-	5000
Allowances for staff (inc. overtime, per diems)	1000	-	-	1000
Vehicle, POL	13000	-	-	13000
Start-Up Total	51400	50000		101400
Long-Term Services and Commodities:				
8(a) CONTRACTOR				
Program Coordinator	-	150000	150000	300000
Computer Specialist	10000	33000	60000	103000
Short-term TA (unallocated)	-	60000	60000	120000
Short-term training	20000	20000	20000	60000
Computer Equipment				
11 Micral 30's	30556	30556	-	61112
12 IBM-PCs (or compatib'	42000	-	-	42000
12 Hard disk systems	42000	-	-	42000
22 Dot-matrix printers	17600	-	-	17600
11 UPS systems	11000	-	-	11000
Related Computer Equipment				
10 Work stations (DP6)	22222	-	-	22222
2 Cards for work stat.	2222	-	-	2222
1 Auto cut-in power	1500	-	-	1500
2 Split ACs	5000	-	-	5000
Other equipment (to be identified)		500(	-	5000
Freight @ 25%	43525	888(	0	52414

Software				
19 Spreadsheet	12350	-	-	12350
19 Relation database mgt	13300	-	-	13300
19 Word processing	9500	-	-	9500
19 Statistics pkg	13300	-	-	13300
19 Basic database mgt	5700	-	-	5700
19 Utilities	3800	-	-	3800
5 Econ forecasting	-	3500	-	3500
5 Financial analysis	-	3500	-	3500
Unidentified software	-	5000	-	5000
Computer Supplies, Journals				
General supplies	5000	5000	5000	15000
Magazines and books	533	533	534	1600
Spares, extras	-	30000	30000	60000
PCU Management:				
Supplies	-	5000	5000	15000
Allowances for staff (inc. overtime, per diems)	-	5333	5333	10667
Vehicle, POL	-	3000	3000	6000
Overhead (TA,training) 80	24000	210400	232000	466400
Contingency 10	33511	57871	57087	148469
Long-Term Contract Total	368619	636582	627953	1633154
GRAND TOTAL	420019	686582	627953	1734554

Note: By the conventional summary categories,

Technical assistance	30000	293000	270000	593000
Training	20000	20000	20000	60000
Commodities	312508	105311	48866	466685
		Sub-Total		1119685
		Contingency and Overhead		614869
		GRAND TOTAL		1734554

ANNEX H

THE GRM PERSONNEL REDUCTION PROGRAM

A. Overview

The weight of salaries in the national budget severely limits the amount of flexibility that the Government of the Republic of Mali (GRM) has in managing its financial affairs. The structural adjustment program associated with the International Monetary Fund Stand-By Agreement begun in 1982, therefore, quite rightly looked at the opportunities for containing personnel expenditures in an effort to release revenues for other uses (principally reducing the overall deficit and covering debt arrears). In 1983, for the first time in its history, the GRM did not automatically employ all post-secondary school leavers wishing to work in the Civil Service. In 1984, the rules applied for entry into the Civil Service were stricter than they had been in 1983 and new recruitments were well within the one billion FCFA limit established for the "new recruitment payroll" under the terms of the IMF/GRM agreement.

While maintenance of the budgetary limitations on new hires will help to control personnel expenditures to some extent, personnel expenditures will continue to grow. Unless the revenues of the state grow significantly, such growth is likely to pinch even further the budgetary allocations to non-wage recurrent costs (equipment, operating expenses, etc.). This could have serious consequences for the productivity of the public sector in providing effective services. Already Mali ranks near the bottom of list which ranks nations by the relative amount of their budget devoted to non-wage recurrent costs vis a vis the wage bill. Anecdotal evidence confirms the reality of the ranking and paints a picture of the chronic lack of supplies and materials with which Malian civil servants are expected to work.

An analysis of the options available to Mali shows two positive approaches which can be taken to bringing the wages side of the budget equation into a better balance with the non-wage (or "materials") side:

First, the GRM could "privatize" some public functions. Several candidates have already been suggested. The one which has been most fully developed is that of veterinary services -- perhaps including technical services in animal production. A first draft issues paper has just recently come out of the Ministry for Natural Resources (in which livestock services are located) and will be the subject of much debate over the next several months. The medical profession is another area which has received some attention. The problems being debated have to do with the fear that public services delivery will suffer to an unacceptable degree if there is no control on which and how many physicians and midwives, for example, leave the public service. There is a widespread view that all the excellent professionals would establish themselves in private practice and all the mediocre ones would remain in the public service. On the other hand, it has proven difficult to devise controls which would ensure maintenance of adequate public services, are fair to individual professionals, and yet do not stifle all incentive among thsoe who are likely to be able to successfully establish themselves in the private sector.

Second, the GRM could encourage civil servants to retire early. This idea has been debated for some time in Government circles and the time now seems ripe for a pilot effort. During the course of EPRP design, in fact, a series of discussions were held to bring the various ideas which had been floating around into some concrete shape. USAID/Mali participated in a number of these discussions and asked some of the design consultants on EPRP to take a hard look at various aspects of the emerging program to assess whether in fact the personnel reduction program had any likelihood of success. After a substantial amount of debate and discussion of the issues, it is our assessment that the personnel reduction program is sufficiently well-conceived that there is a good possibility that it could be effective not only in addressing the underlying budget structure problem but also for stimulating a certain amount of growth in the private sector.

B. Reducing Personnel Expenditures: The GRM Personnel Reduction Program

The personnel reduction program as it is now planned focusses on voluntary early retirement of civil servants with between 5 and 14 years of service and with more than 5 years left to go before retirement. In order to put this "voluntary early departure" mechanism into place, however, the GRM has determined that it needs to fulfill a certain number of preconditions for success:

1. Physical verification of civil servants employment status

As part of the IMF/GRM Stand-By Agreements and with the assistance of the UNDP-financed Administrative Reform Assistance project, the National Commission on Administrative Reform (CNRA), the Ministry of Employment and Civil Service, and the Ministry of Finance in early 1985 launched a program to verify the presence and personnel records of all civil servants in Mali (the controle physique des effectifs). Two study tours were made to Niger and Senegal in order to share their experience in conducting similar verification programs. The Senegal mission was felt to be particularly useful both for conceptual and operational reasons. The Mali program proposal drew upon these experiences and took into account plans already developed by the CNRA for improvements in computerization of the GRM payroll and the establishment of organizational charts and position classification and descriptions for all public agencies.

The program for physical verification of civil servants' employment status thus included two phases: first, an examination of all personnel files by the Central Personnel Bureau to establish a list of all employees by national agency budget office (CAF) and by regional payroll office; and second, an actual verification of the presence of each employee and his/her employment status.

Two sub-commissions were set up to conduct the verification exercise. An administrative sub-commission was charged with the identification of each employee and checking him/her against the personnel file documents; a financial sub-commission was to carry out a salary payment on the basis of the verified documents, with the approval of the adminsitrative sub-commission. Both sub-commissions are scheduled to complete their work by mid-1985. Contentious cases were identified and procedures were set in motion to eliminate names of employees who could not be found from the master payroll.

It is intended to maintain a spot-checking procedure in the future in order to ensure continued verification of the personnel records.

2. Computerization of the payroll

Once the personnel files for all civil servants have been verified and/or modified as necessary, the objective of the GRM is to computerize the process of salary payment at a central Payroll Office located in the Ministry of Finance. The National Commission on Administrative Reform has been key in developing the systems and procedures needed to realize this objective. A test of these systems and procedures has been set up (with the payroll of the President's Office) and has been operating in parallel with the manual system.

On this basis of this test, CNRA staff used a PERT analysis to develop a detailed plan for nationwide payroll computerization (Stoop and Tonglet, May, 1985). Nine separate agencies or units of the GRM are to be involved in the implementation of six separate phases of activitiy, the result of which will be complete automation of the payroll process. Critical elements of each of the six phases are summarized below. It should be noted that the timing developed in the PERT planning exercise was keyed to the acquisition of computer equipment. Since computer hardware, software and supplies for the Central Payroll Office are to be part of the goods and services financed with the initial tranche of EPRP funds, timely acquisition and installation of these materials is of critical importance to the execution of the payroll automation process.

Phase 1: Use of the physical verification exercise results

- All provisional results of the controle physique des effectifs available in Bamako by July, 1985;

- Preparation of final list of civil servants; data entry

- Presentation of results to GRM in form of reports; recommendations for future steps to be taken

- Improvement of all payroll departments' handling of the verified information for keeping them up-to-date, making corrections, and using them for improved management

- Establishment of the new payroll procedures: designation of the central Payroll Department in the Ministry of Finance as solely responsible for the computerized payroll, with oversight from the Cabinet of the Ministry of Finance;

- Utilization of the results by the National Civil Service Department will be: keeping up-to-date on upcoming retirements and on other employees who leave the Civil Service; clearing up irregularities noted in the controle physique; and ensuring that those employees already past the retirement age are retired.

Phase 2: updating basic payroll computation information and methods of calculation

- Elaboration of a plan for calculating the payroll, including coding instructions for all allowances and bonuses, methods for handling payments to employees in training, and necessary conversion and adjustment factors;

- Establishing standard base tables for payroll computation

- Installing and adpating the present test program

- Adding the Ministry of Plan to the test program and operating it in parallel with the normal manual system

Phase 3: Establishment of the complete payroll database

- Data entry

- Verification of all data entry by national and regional payroll departments

- Error correction and establishment of a regular system of verification and correction

Phase 4: Establishment of the automated payroll system

- Development of documentation for system, including measures for modification and correction, integrating the results with the budget accounts for personnel, verification through the Treasury, and preparation of various reports.

Phase 5: Parallel operation of the new system

- Development of a timetable for use of new system

- Training of CAF and Treasury personnel in the new system

- Continuation of the two test programs

- Progressive implementation of parallel systems at the national level, followed by parallel operations at the regional level

Phase 6: Generalization of the new system

- Final adaptations of systems on basis of parallel experience

- Final documentaion of systems and procedures

- Generalization of system as unique legal system of payroll for national organizations and at regional level

- Development of relationship between the new payroll system and the overall personnel management system of the Civil Service Agency.

3. Conducting an agency/position classification survey

The cadre organique effort was approved by law (Ordinance No. 79-9 of January 19, 1984) in order to provide the basis for improved manpower planning for the Civil Service. Through the establishment of organizational charts for every public agency and service, a survey of all positions presently filled and thought to be vacant, and the development of postiion descriptions, it is hoped that the number and quality of employees necessary for effective functioning of the public sector can be determined. Recruitments will then be made on a more factual basis than at present.

The CNRA was tasked with developing a procedure for establishing the cadres organiques and has done so on a pilot basis for the payroll departments in various ministries and for the regional oeprations in the Region of Koulikoro and the Cercle of Kangaba. Ultimately, at the national level, each service will be repsonsible for establishing its own cadre organique. This will then be reviewed by the Ministry of Plan and the CNRA. A final version will then be developed and proposed for approval by the Council of Ministers. The regional Governors will be responsible at that level for the initial survey and establishing the organizational charts and position descriptions. A similar review process will follow.

While the logic of the cadre organique process as the basis for rational manpower planning cannot be denied, there is apparently some concern that there will be a tendency on the part of the various government agenciies to overstate their personnel requirements and to suggest further increases in the number of civil servants. It is hoped that the several reviews of the basic cadres will alleviate this tendency and result in realistic appraisal of public sector personnel needs.

A decree stating the conditions and procedures for the development and management of organizational charts and position classifications and descriptions was drafted by the CNRA on the basis of their pilot efforts and was passed by the Council of Ministers. The decree establishes a timeframe of two years for all cadres organiques to be completed and reviewed.

4. Computerization of the budget, including the application of a new budget classification system

At present, the budget planning and tracking process of the Government of Mali is fairly rudimentary. Only minimal computerization of certain accounts has been possible to date, with the assistance of the IMF. Improving budgetary management and decision-making on budget allocations clearly requires expansion of the computer capacity of the Ministry of Finance's Budget Office. The Treasury (also in the Ministry of Finance) is only slightly more advanced, as it is shortly to receive (through a grant from France) a mini-computer of its own. There is, however, no linking between the Budget and Treasury systems at present. (The basis for making this link in the future is discussed in Annex G.)

Again, the CNRA was charged with looking into the possibility of improving budget management and reporting and has developed a sustem of budget coding and classification which will permit both more detailed and more functionally-oriented budget analysis and moniotoring. The proposed coding and classification system has been tried on a pilot basis in the Ministry of Rural Development and provides, to those interested in the budget allocation and expnditures, a distinct improvement over present reporting procedures. It appears as though it would require little additional effort on the part of the administrative and financial divisions of the various ministries although it depends upon considerably expanded computer capability in the Ministry of Finance if it is to be used effectively by decision-makers.

5. The Voluntary Early Departure Program

The issue of actually discharging civil servants should the cadre organique exercise demonstrate the "plethora" of civil servants which many feel exists has not yet been officially discussed. However, forcible reductions in force are, as was noted above, a politically unpalatable solution to the budgetary structure problem as a whole and it is unlikely that even detailed illustration of excess numbers of personnel in certain areas will increase the acceptability of this solution. Thus, the basic approach endorsed by the GRM as a possible way to address the critical problem deriving from the heavy weight of personnel in the government budget is that of encouraging civil servants to leave voluntarily.

Even this solution is not without its problems for the GRM, however. Civil servants are entitled to severance pay and to their accumulated retirement benefits. Any substantial number of applications to retire early would require the GRM to come up with even more personnel funds in the short term and would at least temporarily throw the budget structure even more out of kilter. The possibility of using EPRP funds to compensate for non-wage budget expenditures while a voluntary personnel reduction program is launched was thus an attractive one and encouraged the GRM to develop a progam which has the potential to engender the kind of budgetary savings needed to support a sustainable change in budgetary allocations.

The Voluntary Early Departure Program (VED) planned by the GRM consists of two integrated components: (1) a severance pay program, combined with a pension guarantee scheme, to provide short term income security and a source of investment capital; and (2) the establishment of a Credit Guarantee Fund and a Feasibility Study Fund to facilitate access to credit to finance former civil servant's efforts to find -- or create -- employment in the private sector.

The challenge for the GRM planners has been to devise a program which is both cost-effective and affordable, encourages enough but not too many civil servants to leave, and has the desired long-term effect on the wage bill.

(a) Criteria for Eligibility

In order to increase the attractiveness of the departure program and to simplify administration, the GRM has determined that the criteria for access to the advantages of the program will be limited to the following:

- Malian nationality.

- Regular civil service status and on the budgetary roles for at least five straight years.

- More than five years away from retirement.

- Resignation from the civil service in order to benefit from the program.

(b) Estimating the Number of Participants

Because of the lack of past experience with voluntary early retirement programs in Africa, one cannot accurately project the number of civil servants who might choose to leave government service in response to the incentives the GRM can afford to make available. Two surveys conducted to explore this question in recent years provided widely-varying, strictly notional estimates (SNED, 1984; Karmiloff et al, 1984). Civil Service interviewed were not prepared to giove measured responses,however, and responses to questions about levels of severance pay which would give civil servants incentives to leave (as opposed to the strict minimum required by law) were in the realm of fantasy.

Thus, in establishing a planning figure, several factors were taken into account. First, the present opportunities for employment and investment in the private sector are considered to be somewhat limited due to existing policy/institutional constraints and to the economic impact of the prolonged drought. Second, while the planned regulatory and tax reforms are expected to have an immediate positive psychological impact, sufficient time must be allowed for their implementation by the GRM, and their understanding and application by the sector. Third, lacking experience with VED-type programs, the implementation requirements cannot be precisely predicted. Thus an initial learning cycle is needed to work out the bugs.

All of these factors support limiting the size of this initial program. A first thought was to specify the levels and qualities of personnel who would be permitted to retire early. Unfortunately, until the cadres organiques are completed, there is no rational basis for doing this. At the same time, the advantages of involving a sufficient number of participants with a wide range of experience with respect to the types of employment sought and realized, investments planned and carried out, the level of success desired, were realized. In addition, it was felt that the size of the program should be sufficiently large to provide a measurable impact on the personnel/materials expenditure ratio. These factors -- plus the very favorable financial returns (described in Annex D) which the GRM can realize under the VED program -- also indicated a larger program.

Having taken the above factors into account, the GRM has set as an initial objective, the departure of 200 senior civil servants (from category A), 200 from category B (mid-level), and 200 lower-level personnel from category C, over a two to three year period.

(c) Severance Payments and Pension Guarantee Scheme

In order to achieve this projected reduction in numbers, sufficient benefits must be offered to civil servants who might be interested in leaving the public service (1) to replace the loss in salary they will experience during the time needed to find new jobs in the private sector or to generate income from new entrepreneurial activities, and (2) to provide them with at least part of the capital which would be required by banks considering financing their ps investment proposals.

While individuals in the Civil Service have a wide range of salaries, even within categories, due to family allowances, seniority, and position differences, it was decided to set VED program severance pay by category, with the amount offered proportional to the average salary in that category. Besides simplifying procedures, this arrangement increases the incentives for those civil servants in each category who have the least seniority, and therefore the lengthiest anticipated stream of salary payments. Further, this approach avoids issues that could arise if significant deviations from existing pay scales were to occur under the program. Thus, the amount of severance by category has been set as follows:

4.0 million FCFA ($8,890) for Category A

2.5 million FCFA ($5,560) for Category B

1.7 million FCFA ($3,780) for Category C

Civil servants participating in the VED program will also receive retirement benefits in accordance with their current entitlements based on the following formulae:

- Participants having more than 5 but less than 15 years of civil service will receive in a lump-sum payment the equivalent of all personal contributions made to the Malian Retirement Fund (Caisse Malian de Retraite, CMR) as well as those made on their behalf by the Government. This amount is estimated to be 980,000 FCFA ($2,188) for civil servants in category A, 580,000 FCFA ($1,290) for category B, and 420,000 ($930) for category C.

- Civil servants having more than 15 years of service (and still more than 5 years before mandatory retirement) will be guaranteed their full pensions when they reach retirement age. The GRM will continue to pay contributions for these participants into the CMR. At the mandatory retirement age, they will be eligible for the same pensions they would have received had they remained in the Civil Service.

These payments are considered to be the sum of GRM responsibility for those civil servants choosing early retirement. It will be up to the retirees themselves to take the initiative in finding new jobs, either in ongoing businesses or by starting up their own. Although some of the policy, tax, and regulatory reform measures being undertaken in conjunction with the EPR program will improve the climate for private sector investment and employment, it is still likely that retiring civil servants will have to overcome problems of markets, credit availability, technological and managerial know-how, and information.

(d) The Loan Guarantee Fund

For those ex-civil servants wishing to enter into private business, either alone or in association with others, the question of financing is perhaps a principal one. The severance pay and reimbursed pension funds will address this constraint to some extent. But it will be the responsibility of the potential entrepreneurs themselves to seek out the additional funds needed, either through informal credit networks or from the public and private banks in Mali. While a certain number of civil servants already appear to have one foot planted in the private sector, the secure salaries which they receive help to compensate for the some of the risk they incur in developing these private enterprises. Retirement will change this situation and may make them even less attractive borrowers from the viewpoint of the Malian banking sector.

The state-owned Malian Development Bank (BDM) is presently the largest lending institution in the Mali but also the one with the least lendable resources and the largest amount of debt arrears and bad debts on its books. It is also less interested in small-scale lending than other banks. The National Agricultural Development Bank (BNDA) is a more recently -established public bank and has learned from the BDM experience; BNDA is a cautious lending institution and has expanded its portfolio slowly. The private banks (BIAO, BMCD, and BOAM), of course, are responsible to their stockholders. They seem to be capable credit managers and have profitable loan portfolios at the present time, but they are chary about extending high-risk loans for medium- to long-term investments and prefer to invest extra resources in money markets operated by the Central Bank (BCEAO). While both public and private banks are interested in playing a role in expanding the vitality of the private sector in Mali, they are understandably concerned to do so with limited risk.

Therefore, to provide further incentives to retire early, and as a means of ensuring that entrepreneurial retirees are successful in establishing businesses and generating more productive employment in the private sector, the GRM proposes to facilitate their access to formal credit and banking services by establishing a Credit Guarantee Fund.

The Credit Guarantee Fund will cover part of the risk the lender would incur in lending to VED program participants. The Fund will be established in the amount of 900 million FCFA ($2 million) at the Central Bank of West Africa-Mali (BCEAO). Fifty percent of the credit extended by the public or private banks to former civil servants who have taken advantage of the VED program will be guaranteed, up to a maximum per participant of 5 million FCFA ($11,100). In the case of loans involving several participants, the ceiling will be multiplied by their number. The estimated amount of the guarantee fund (900 million FCFA) is based on the assumption that a maximum of 180 ex-civil servants out of a total of 600 will fulfill the conditions necessary to obtain a bank loan. It is further assumed that each participant will receive the maximum level of guarantee 5 million (FCFA).

The Credit Guarantee Fund will be managed by the Central Bank of Mali (BCEAO). All Malian banks will be eligible to draw on the Fund to cover loans made according to standard lending criteria. Loans guaranteed by the program will correspond to the BCEAO eligibility criteria for preferential rates for small and medium enterprises. Any industrial, agricultural, commercial or service enterprise will be eligible for guarantee coverage. The lending institutions will determine credit terms for each loan according to their standard practice, within the guidelines established by the BCEAO. The total amount of credit extended under this program will be part of the credit ceiling established by the BCEAO. To the extent that private lending banks can qualify for preferential refinancing rates, they can benefit from BCEAO refinancing facilities related to these loans.

The amount of the guarantee for an eligible loan will be deposited by the BCEAO in the lending bank when the BCEAO determines that the loan corresponds to the general conditions established for the Credit Guarantee Fund. The bank of deposit will be free to use these funds as part of its normal deposits and will pay interest to the BCEAO at an agreed-upon rate of interest.

Potential entrepreneurs will be responsible for taking the initiative in presenting their loan proposals to the bank of their choice and in assuring that the technical and financial aspects of their prospective enterprises are adequately studied. Potential lending institutions will be responsible for reviewing feasibility studies presented prior to offering loans. There are a limited but adequate number of firms and individuals in Mali capable of preparing feasibility studies for entrepreneurs, including a few supported by other donors.

(e) The Feasibility Study Fund

To ensure that VED participants prepare adequate feasibility studies and are eligible for credit at both private and public banks, a Feasibility Study Fund of 150 million FCFA will also be established by the GRM. The fund will provide up to 50 percent of the cost of feasibility studies, up to a ceiling of 250,000 FCFA ($560) per applicant. However, as with the Credit Guarantee Fund, in cases of joint projects involving several participants, the ceiling will be multiplied by their number.

Access to Feasibility Study Funds (FSF) will be through the potential lending institutions. VED participants will be expected to present their project ideas to the bank of their choice and will be free to select the organization/individual of their choice to prepare the required feasibility study. If that lending institution states that it is, in principle, prepared to consider financing the proposed project subject to the completion of a detailed feasibility study and approves of the study outline and cost estimate, funding will be made available from the Fund. Upon completion of the study, the bill for carrying it out and the study itself will be presented to the bank. If the bank does in fact grant a loan on the basis of the study, 50 percent of the costs of the study (up to a maximum of 250,000 FCFA) for which the participant is eligible will be included in the total amount of the loan granted. If the bank decides the project is not creditworthy, the FSF will simply reimburse the amount for which the participant is eligible.

The global amount of the FSF is based on the assumption that about 500 ex-civil servants will apply for study funds. It is further conservatively assumed that each will apply for the maximum individual amount (250,000 FCFA). To the extent that the studies result in loans, of course, the number of participants using the FSF can be increased.

6. Within-government transfer of civil servants

Given the lack of established staffing patterns (cadres organiques) in the public sector, official vacancies in the civil service do not exist. When department heads feel a new program requires new personnel, recruitment is done informally through personal contacts or through new hirings.
In initial planning for the Voluntary Early Departure program, it became apparent that the lack of a mechanism to facilitate transfers within the administration might pose a constraint. If civil servants wished to take early retirement, but their superiors felt that the job they were doing needed to be done, for example, the superiors would be justified in refusing to accept an early retirement application unless they could locate someone with similar qualifications to fill the post.

The Ministry of Employment has been asked to look into this issue and to consider ways in which it might be handled. So far, no firm options have been proposed.

7. Hiring Limits

As was noted above, perhaps the most significant cause of the growing weight of personnel expenditures in the public budget has been the policy of automatic hiring of all post-secondary school graduates. At independence, Mali had few university students. It thus was natural for the GRM to place a heavy emphasis on training people to fill the upper echelons of the state bureaucracy which had been vacated by French colonial officials. To speed up this process and to encourage recent graduates to enter government service, not only did the GRM expand existing post-secondary institutions in the country, but they also offered scholarships to students studying at home and abroad and provided job opportunities for all graduates. As long as the numbers were small and the needs for trained Malians high, this policy did not pose major problems.

A major study of Mali's manpower needs from 1975-1985, however, showed that if the trend was continued, there would be a surplus of graduates at higher levels, creating a situation in which the ratio between higher (Category A) and medium (Category B) civil servants would deteriorate from a more or less acceptable 1 to 3 ratio to a 1 to 1 ratio (Pierot, 1975). Unfortunately, no action was taken as a result of the report and the predictions have become reality.

In 1983, however, the GRM finally took steps to address the problem and, for the first time, introduced a competitive examination for entry into the Civil Service. The first year, the program was not managed as well as it should have been and it was, predictably, criticized. The exam system was retained, however, and in 1984, the targeted number of entrants was more carefully set using the budget guidelines for new recruits established in the IMF/GRM Stand-By Agreement, the passing grades were determined in advance, and both factors were used as criteria for determining entrance. This process is described in detail in Annex F.

There is now some evidence that students are reluctantly beginning to adapt their aspirations to current realities. A recent survey (ENA, 1985) of

National School of Administration indicates that they are no longer as snaguine about getting jobs in the civil service as in the past. Thus, the level of expectations has begun to go down and has led many students to look outside the public sector for employment.

What the GRM will use as budgetary guidelines after 1985 for controlling new hiring is not yet known. The IMF Agreement stipulated that the ceiling on the "new hiring" line in the budget would gradually decline from 1.25 billion FCFA in 1983 to one billion in 1984 to 750 million in 1985. The Agreement was, unfortunately, not as clear as it could have been on the method of calculation of new hiring budgetary requirements. There appears to have been a possibility that some new civil servants were hired toward the end of the fiscal year, for example, rather than at the beginning as was intended. Due in part to normal delays that occur in the recruitment process, the number of recruits that can be hired during given year can exceed the number implied by the budget ceiling. This occurs because the actual salaries earned by new recruits hired late in the year are less than a full year's salary. For example, if hired six months into the current fiscal year, two new recruits with equal salaries could be hired within the annual salary level of one of them. The net result is that in subsequent years, the wage bill of new recruits hired in the current year could substantially exceed the "ceiling" established during the current year.

Nevertheless, as described above, the GRM has achieved impressive results in limiting the number of new recruits under successive Stand-By Agreements with the IMF. Since 1980 that number has been reduced from over 2000 to about 1300 per year. It seems reasonable now to look for even greater restrictions on entry. The IMF is presently requesting a complete freeze on new hires in 1986, but this is likely to be unsustainable even if it is accepted by the GRM as a condition for a one-year Stand-By. More reasonable ceilings are probably in the range of 1100 individuals in 1987 and 800 in 1988.

In order to better reflect the real budgetary impact of civil servant recruitment policies, however, it is suggested that the GRM use budgetary analysis rather than the simple target-ceiling numbers as the basis for determining annual recruitment levels. It is proposed, therefore, that the GRM establish a total-cost-of-recruitment rule that requires ministries to take into account the salaries of new recruits during an entire year. The recruitment ceiling will be based on this set cost which will be calculated in the following way:

$$(A \times 250 + B \times 150 + C \times 110) \times I$$

where A is the number of admitted candidates in category A; the figures refer to the average salary level of a new entrants (expressed in index points); and where I is the value of an index point. (NB: The base salary of a civil servant is obtained by multiplying his/her index level by the value of the index point which is set by decree.)

8. Personnel Control Measures

The Voluntary Early Departure Program implementation will require the GRM, for the first time, to use its centralized payroll and personnel records as a control against people re-rentering the Civil Service. The mechanisms for this have not yet been worked out, but the Ministry of Finance and Ministry of

Employment and Civil Service will need to coordinate efforts to ensure that those civil servants who have benefitted from the severance pay and other measures are not re-admitted to Civil Service employment.

9. Adjustments in the personnel reform program

As was already noted above, the GRM has conceived of the various elements of the personnel reform program in a learning mode. Many of the program targets have been set on the basis of educated guesses, but will not be proven until they have received wider consideration by the civil servants they are intended to affect.

The CNRA will obviously play a key role of observer in the process of personnel reform. All the other minstries and units involved in the computerization of the payroll, however, will also be in a position to monitor progress and to suggest revisions. Because the success of the personnel reform program underlies the progress which can be made in restructuring of the public budget, the EPRP Program Coordination Group will be asked to monitor the program and, to the extent possible, to participate in the discussions of possible revisions. There will be a feedback effect on the implementation of both the tax reform and budget restructuring programs; this is likely to require substantial insight into cause as well as effect.

C. The Privatization of Public Enterprises

The GRM also plans to extend some of the concepts involved in Civil Service personnel reductions to the process of privatization of public enterprises. Under the terms of the previous IMF Stand-By Agreements, the three public enterprises incurring the greatest losses (SOMIEX, COMATEX, and AIR MALI) were required to discharge about 1000 employees in an effort to stem the flows of red ink. Under time pressure, the GRM carried out this measure at some political cost. A new project of public enterprise reform and rehabilitation is now scheduled to begin with World Bank funding within the next year. The feasibility study for this project (Rapport P & A) provided an overall diagnosis of the sector and divided public enterprises into three categories:

- enterprises requiring fine-tuning;
- enterprises requiring major rehabilitation or further study as to their long-term viability; and
- enterprises to be closed or privatized if private partners could be identified.

The World Bank-supported project provides for a series of actions, all of which are highly complementary to those supported by the EPRP:

- privatizing, liquidating or otherwise spinning off ten public enterprises;
- rehabilitation of five enterprises; and
- policy and institutional reform aimed at changing the institutional

links between the GRM and the public enterprises to provide for greater managerial and financial autonomy as well as greater accountability, to establish criteria to be met prior to creating or investing in public enterprises, to improve the payments system among the public enterprises and the GRM, and to remove tax provisions discriminatory towards public enterprises.

While the implementation of these plans is not likely to be officially begun before July, 1986, the World Bank will provide technical assistance to the Ministry of Plan (which will be the executing Ministry for the GRM) to permit certain actions to get underway in the short term. In addition, the Ministry of Tutelle for State Enterprises is actively engaging in discussions with potential private sector buyers for those enterprises targeted for privatization or closure. However, the private sector representatives interested in purchasing public enterprises are only interested in doing so on condition that they are not forced to employ the total number of employees currently in place. The Ministry of Tutelle, therefore, must develop and negotiate a personnel reduction plan for these public enterprise employees. The GRM has thus decided to implement a program for such personnel reduction which shares some features of the voluntary reduction program it intends to put in place for reducing the number of civil servants.

It is proposed that financing will be provided to pay of the level of severance pay required by the law (about 150,000 FCFA), but to provide some support for private sector re-entry in the form of access to a Credit Guarantee Fund and a Feasibility Study managed by the BCEAO in the same way as for the VED Program. Access to credit has been a problem encountered by some of the personnel discharged from Air Mali last year and this approach may provide the kind of assist that was lacking at that time.

ANNEX I

THE PROGRAM COORDINATION UNIT (PCU)

A. Overview

Before signature of the Program Agreements (see Annex J), a Program Coordination Unit (PCU) will be established within the Ministry of Finance. It will include a technical assistant recruited by USAID and two Malian professional staff members appointed by the Ministry of Finance. The general role of the Unit will be to facilitate continuing coordination between USAID and the GRM and to assist in follow-up and periodic evaluation of implementation of the two Program components. In the early stages of the Program, however, it will also be necessary for the PCU to assist in the procurement of goods and services from the U.S. (computers and associated technical services) and to establish the PCU office.

The PCU's initial functions for the first six to eight months of the Program will be: (1) to supervise procurement of goods and services to be acquired with the initial Program disbursement; and (2) to monitor GRM progress in fulfilling the conditions precedent of the EPRP in a timely manner, particularly with regard to computerizing the payroll by the end of Mali FY 1985 (December 31); installing a new system of budgetary classification by Mali FY 1985; and following the organization/job classification (cadre organique) process.

Preparation for the first GRM/USAID joint review will be the final task of the initial phase of the PCU function. These joint reviews will be the basis for USAID determination that conditions for disbursement of each tranche (three for the tax reform component and two for the budget restructuring component) have been met. It is anticipated that the reviews will be held at the end of the calendar years, i.e., just prior to the beginning of the GRM fiscal year on January 1. Two series of review sessions will be held: technical and Program. One technical review will be conducted for each component of Program activity; the Program review will draw on the technical reviews and address broader policy as well as implementation issues.

The Program Coordination Unit will be responsible for planning and organizing all review sessions, including the preparation of background documents, special studies, and summaries on progress indicators as well as handling the logistics and management of the sessions. The PCU will involve short term technical assistance or local consultants as required.

After the first conditional disbursement of funds, the PCU should be able to operate at a slightly less urgent level of activity. On a more continuous basis, the PCU members will be expected to:

- communicate progress and problems to the Minister of Finance or his designate on a regular basis;
- report regularly to the USAID Project Office regarding the progress in implementing the various measures specified in the EPRP Program

Agreement as conditions precedent or as policy reform measures agreed to under the program;

- prepare all documentation necessary for joint GRM/USAID review of progress one month prior to each planned disbursement of funds;
- carry out the necessary policy studies, assessments, seminars/workshops to facilitate the planning and implementation and evaluation of policy reforms;
- monitor the issuance of any administrative decrees required for policy implementation; and
- coordinate inter-ministerial and joint GRM/USAID reviews and evaluations of the policy reform program.

Finally, the PCU will be required to assist in designing and negotiating Program modifications. Since this is an important and sensitive task, the factors involved are presented in more detail in the following section.

B. <u>The PCU Role in the Program Modification Process</u>

The joint review process described above will identify what needs to be done, but there is likely to be a certain amount of technical consultation and drafting of agreements before the modification can be considered to be in place. It will be the job of the PCU to ensure that Program modifications are carried out in a timely, professional way.

The modification process will be set in motion by any one of a number of possible events:

- complete non-fulfillment of a condition precedent by the time anticipated and little likelihood of it ever being fulfilled;
- a change in the rate of exchange between the dollar and FCFA, which will change the relationship between Program assistance and GRM costs in carrying out specific reforms, e.g., tax reform;
- partial fulfillment of a condition precedent with certain elements likely to be outstanding for some time;
- external economic events, which could have an unforeseen impact on the national revenues or expenditures;
- political backlash on one of the reform programs; or
- modulation of the pace of execution in a program.

While the event may be obvious, what should be done to modify the EPRP objectives, pacing, allocation of financial support, or conditions will not be. Thus, it will be up to the PCU, in liaison with the Ministry of Finance and USAID, to develop (in writing) the rationale for any modification, to suggest ways in which the modification might be handled, and to indicate what it implies for the overall attainment of the Program purpose. If the need for a modification is identified during the preparation of the annual joint reviews, the PCU should write up the above-mentioned points as much as possible so that the technical and Program review commissions can consider the proposals. If the need for the modification emerges from the joint reviews, the PCU may have to organize a special follow-up meeting with concerned parties to review the document prepared. If the modification is slight, it may be enough simply to circulate the document and note responses in a follow-up memo. [In all cases, USAID/Mali will be responsible for formal modification of the PAAD to the extent required.

C. Budget and Staffing

The operating cost of the Unit, including the services of the expert, the allowances and per diems for the two staff members, and the necessary equipment and materials, will be covered by the Program. The Ministry of Finance will provide an office and necessary logistical support. Terms of reference for the Unit and a monitoring and evaluation system will be the subject of a detailed agreement between the GRM and USAID before the Unit is actually operative.

It is intended to hire an initial Program Coordinator locally to head the PCU for a period not to exceed one year. This initial Program Coordinator will be experienced in Malian administrative systems in the Minstry of Finance and the Ministry of Employment and Civil Service and will:

- carry out local procurement of office equipment and supplies for the Program Coordination Unit (typewriter, telephones, a photocopier, memograph, chairs, and normal office supplies (paper, pencils, etc.) (See procurement list in Annex G). These shelf items will be procured locally;

- assist the Mission in arranging for an American firm to carry out "procurement services" pertaining to purchase, burn-in, delivery, installation (including local training) of computer equipment for the Central Payroll Bureau, the Budget Division, and the Department of Internal Revenues in the Ministry of Finance; and

- in collaboration with the Malian PCU members, prepare both operating guidelines for the PCU and a written monitoring and evaluation plan.

It is intended to select competitively a U.S. firm to provide a long-term technical assistance as well as follow-up procurement of computer materials and training services. If a firm can be identified which can provide satisfactory staffing and backstopping for both general Program coordination and computer services, then one firm will be selected. If no firm has the capacity to do both, then it is possible that an IQC firm will be sought for the short-term computer services and another, possibly 8(a) firm, for sustained coordination services.

The long-term Program Coordinator will be employed for a two-year period. This Coordinator will be supplemented with short-term assistance (six person-months) as needed to support monitoring and coordination activities of the PCU (e.g., budget specialists, tax reform specialists, computer training or programming specialists, etc.). The Automation Specialist, who will be attached to the PCU but will be specifically charged with computer installations, training, and supervision rather than general Program monitoring and coordination, will be responsible for follow-on equipment and supplies procurement, both locally and in the U.S.

The authorized source and origin for commodities will be geographic code 941. It is essential that all technical assistance be in Bamako, Mali by March 1986.

In order to (1) assure adequate overlap between the initial Program Coordinator and the long-term Coordinator (whose responsibilities will be somewhat broader), and (2) initiate timely procurement of program commodities, the necessary PIO/T will be issued within one month following the signing of the Project Agreement. These will provide for (1) the long term (two years) assistance of a Program Coordinator and an Automation Specialist familiar with microcomputer applications in personnel management, budget management and program evaluation/monitoring systems, to carry out the tasks outlined in Section D below and in Annex G; and (2) the procurement (on a commission basis) of the equipment and supplies listed in Annex G.

D. Scope of Work: Program Coordinator, EPRP Program Coordinating Unit (PCU)

1. The continuing responsibilities of the Program Coordinator are to:

- Manage the PCU Office in the Ministry of Finance, supervising support staff, ordering adequate supplies, etc.

- Monitor GRM progress in fulfilling the conditions precedent of the EPRP in a timely manner, that is:

-- computerizing the payroll by the end of MFY 1985;
-- installing the new system of budgetary classification;
-- conducting the analyses needed to establish a detailed plan of action for tax reform at the end of each MFY;
-- completing the organization/job classification (?cadre organique?) process; and
-- communicating progress to the Minister of Finance or his designate on a regular basis.

- Report regularly to USAID/Bamako project manager (Program Economist or designate) regarding the accomplishment (or problems with the accomplishment) of various measures specified in the EPRP design either as conditions precedent or as policy reform measures supported.

- Prepare, in collaboration with the GRM members of the PCU, all the documentation necessary for a joint GRM/USAID review of progress two weeks' prior to each planned disbursement of funds.

2. Specific responsibilities in the July, 1985 - December, 1985 period will be to:

- Establish office facilities for the Program Coordinating Unit:

-- carry out local procurement of goods and services as necessary, in accordance with accepted USAID/Mali procurement procedure (completed by Sept., 1985); and

-- set up office management procedures which will permit effective monitoring of PCU-related expenditures and effective use of personnel assigned to the PCG by the GRM (completed by October, 1985).

- Assist USAID in the procurement of other goods and services needed to:

-- computerize the GRM payroll and the budget (orders placed before October 1, 1985);

-- install the new GRM budget classification system; and

-- prepare a detailed action plan for GRM fiscal reform in MFY 1986 (by the end of October, 1985).

- Maintain a day-to-awareness of problems and progress, communicating findings on a periodic basis to USAID/Bamako and/or the Minister of Finance; specifically, in this period,

-- liaising with (and contributing as needed to) the CNRA, Ministry of Finance, and Fonction Publique efforts in planning the voluntary early retirement program and developing detailed implementation plans;

-- liaising with the Ministries installing the new budget classification and coding system and contributing as needed to effective adoption of the system; and

-- liaising with (and contributing as needed to assist) the Budget Division of the Ministry of Finance in the computerization of the public sector payroll.

- Develop an evaluation plan and begin the process of generating and/or accumulating the data needed to evaluate project achievements, specifically:

-- the payroll computerization process: numbers of individual records entered; development and application of payroll modification procedures; numbers of checks prepared with automated system on a monthly basis; number of personnel trained and effectively using the equipment; turnaround time from entry of payroll modification information to effective integration into the entire system (Finance, Public Service Commission, and Treasury);

-- plans and preparation for the launching of the voluntary retirement program: numbers and kinds of publicity efforts; numbers and kinds of civil servants submitting Expressions of Interest (by age, seniority, sector, sex, professional training, and expected future employment);

-- development of systems and procedures for establishing the Credit Guarantee and Feasibility Study Funds;

-- application of new budget management systems and procedures (including dates of installation of computer equipment, numbers of staff completing training, and use indicators for the new budget classification); and overall GRM participation in the EPRP-related efforts.

- Report to USAID/Bamako on a weekly basis results of monitoring activity; and

- With PCU colleagues, prepare an end-November meeting to review the proposed fiscal reform plan of action, progress on payroll computerization, and the establishment of all measures related to the Voluntary Early Departure Program.

While this activity will not be completed in this period, the Program Coordinator should, by November, 1985, draft a three-year EPPP evaluation plan along the lines indicated in the PAAD presentation and the ProAg and drawing upon initial experience with the indicators noted above.

C. Evaluation Plan

Following the recruitment of the initial PCU Coordinator, the PCU will develop a detailed Monitoring and Evaluation Plan for the EPRP. This plan will include the following:

- identification of the process and impact indicators and the data to be collected for monitoring and evaluation purposes as well as the methods to be used for its collection and analysis (the preliminary list is found in Section IV on Program Impact above);

- baseline information on the indicators selected; and

- description of the format, content and timing of reports to be used in the monitoring, review and evaluation of program progress and the inputs to be provided by participating GRM agencies.

1. End-of-Program Evaluation

Approximately six months prior to the end of the program, an end-of-program evaluation will be conducted by outside evaluators with financing available through PM & R or other projects. The evaluation will focus on measuring both process and impact indicators and, if the evaluation indicates it is warranted, on developing specific recommendations for a follow-on policy reform program.

The evaluation will be planned and coordinated by a joint USAID/PCU team, immediately following the last joint GRM/USAID review session (i.e., after the disbursement of the third Tax Reform tranche).

The evaluation should:

- summarize the results of the annual joint review sessions; examine the record, assessing their effectiveness in resolving problems, measuring progress toward Program objectives, and setting out valid action plans for the following year;

- analyze the effectiveness of the Program Coordination Unit as a mechanism for sustaining policy dialogue and for monitoring and evaluating progress;
- assess the phasing of policy reform actions: what went as planned, where delays occurred, and what remedial actions could/should have been taken; and
- provide a detailed macroeconomic update, particularly focussing on structural change throughout the Program life; roles and interventions of other donors should be fully taken into account.

2. Applied Studies

The GRM is gradually closing off the public sector as a major source of employment for Mali's newly-educated population. The need for private sector expansion to absorb Mali's exploding working age population is a major concern for the GRM's economic policy reform efforts. The EPRP is based on the premise that such an expansion will require an improved policy and institutional environment, including tax and regulatory reform.

Most observers familiar with Mali's history agree that the climate for achieving policy and institutional reform has never been better. They also agree that it is important to make the best of this "window of opportunity" while trying to avoid costly errors that might narrow or close the window. Two points warrant emphasis in this regard. First, the process of policy and institutional reform is not well understood. There is little empirical evidence upon which impacts of specific changes can be confidently predicted -- much less those which are expected to result from the interactions of several changes. Second, while the planned reforms are necessary, they are far from sufficient conditions for stimulating private sector growth and employment creation.

A learning-by-doing approach to implementation will, therefore, be followed. The annual USAID/GRM joint review process will be an important element in this approach. Each year there will be a formal opportunity to discuss progress to date and to lay out the next year's activities in full awareness of the progress made. The PCU has been charged with arranging for needed studies and analyses to be carried out in preparation for these reviews. The financial resources available to the PCU for this purpose will, however, be limited.

USAID/Mali will, therefore, seek support for applied research and policy analysis from AID central projects, namely, those in ST/RD having to do with institutional development and the regional Sahel Policy Analysis project.

Two possible studies are described below as indicative of the kinds of applied research which would inform USAID/Mali as well as other Missions venturing into the program grant approach to institutional change. The first proposal is for a study to examine the impact of overregulation on the growth of the private sector and the second is for a complementary study on impact of Mali's underdeveloped court system.

a. Overregulation

As described above, the legal and regulatory systems that have been established in Mali for controlling the economy are so complex, pervasive and cumbersome that they are not well understood either by those who administer them or by the private sector. The resulting uncertainty has led to highly arbitrary application of regulations and the establishment of elaborate informal systems for avoidance and cicumvention. They have raised significantly the cost of business formation and transactions in Mali. They have also discouraged investment in Mali.

While some progress will have been made with the passage of the new Commercial Code, much will remain to be done. However, further progress will require a much better understanding of state regulations and their enforcement as well as the response systems that have been developed by the private sector. Thus, a study will be undertaken to generate needed information. Because of the complexity of the regulatory systems and the extralegal and subtle nature of the coping systems that have evolved a long term (18-24 months) study employing anthropologist data collection techniques will be necessary.

The study will include: (1) periodic intensive interviews with a stratified sample of civil servants who have retired from the Civil Service through the Voluntary Early Departure (VED) program and who plan to establish businesses (whether or not they participate in the Loan Guarantee program) and a stratified control groups outside the VED program; (2) significantly less frequent extensive interviews with a larger stratified sample of the remaining VED program participants using pretested questionnaires. The purpose of the extensive interviews will be to (a) expand the size of the sample to increase the validity of the findings from the intensive interviews; and (b) to focus increased attention on impact measurement. The two survey techniques will be complementary, with each informing the other.

The design of the study will be prepared with the assistance of an institutional economist familiar with Francophone institutional arrangements (legal and regulatory systems and their administration) as they apply to the private sector. He will also provide technical backstopping for the study through periodic visits to Mali. The actual study will be carried out by a study team which will include an ABD candidate from a U.S. university in the field of institutional economics or economic anthropology. He will be joined by two or three Malian graduates from ENA.

b. The Underdeveloped Court System

Mali's court system appears unable to effectively arbitrate and enforce property rights and to protect individuals and corporations against the violation of contractual arrangements by one of the parties, increases the risk and uncertainty and, therefore, cost of doing business in Mali. The lack of a specialized court for handling commercial matters adds further to transaction costs. The situation is exacerbated by the lack of trained personnel to staff such courts and to provide legal services for those wishing to go to court to resolve their problems. The critical nature of the situation cannot be overemphasized. Modern economic systems cannot evolve except under the rule of laws that are fairly applied and enforced.

Notwithstanding the importance of the court and enforcement mechanisms, information about them is largely anecdotal. If reform is to occur, as it must, we must expand our knowledge of these systems in order to effectively support their reform.

Toward this end, a short term study will be undertaken of Mali's court and enforcement systems. This study will be initiated after the conclusion of the study of regulations as the findings of that study will provide a major input for the design of the study of the court system.

The latter will focus on both structural and administrative issues relevant to the private sector. It will be designed and carried out with the assistance of a specialist in development law. It is estimated that the study will require three person-months to design and implement. Funding for both studies will be requested under the recently authorized Policy Studies Project.

ANNEX J

SHORT-FORM PROGRAM AGREEMENT

and

PROGRAM GRANT AGREEMENT

SHORT-FORM PROGRAM AGREEMENT

Between the United States of America, acting through
the Agency for International Development (AID)

AND

the Government of the Republic of Mali (GRM)

1. Program Title: Economic Policy Reform Program (EPRP)

2. AID Program Number: 688- 0240

The above-named parties hereby mutually agree to carry out the Project described in this Agreement in accordance with (1) the terms of this Agreement, including any annexes attached hereto, and (2) any general agreement between the two governments regarding economic or technical cooperation.

3. Amount of AID Grant: $ 1.3 million

4. Grantee Contribution to the Project: n/a

5. Project Assistance Completion Date: December, 1988

6. This Agreement consists of this Title Page, Annex A (Project Description), and Annex B (List of Goods and Services).

SHORT-FORM PROGRAM AGREEMENT

Annex A

PROGRAM DESCRIPTION

1. Program Title: Economic Policy Reform Program (EPRP)

2. AID Program No.: 688-0240

3. This Program consists of the "Goods and Services" component of a three-year Economic Policy Reform Program Agreement with the Government of the Republic of Mali. The purpose of this Program is to support the implementation of policy reforms in the areas of taxation and budget management through: the installation of computer systems in various departments of the Ministry of Finance, the National Commission on Administrative Reform, and the Ministry of Employment and Civil Service; training of personnel in the use and maintenance of these systems; on-the-spot technical assistance in the management of these systems in the start-up years; and the continuous monitoring and evaluation of progress in policy reform-related activities.

The activities of the project will be centered in the Program Coordination Unit (PCU) in the Ministry of Finance. Fifty-four months of technical assistance will be funded under this Project.

As soon as this Program Agreement is signed, an interim Program Coordinator will be hired locally by USAID/Mali on a personal services contract for a period not to exceed one year. The GRM will undertake, as part of the Program Agreement, to assign two full-time professionals and one secretary to the PCU and to allocated space for the PCU offices. USAID/Mali will seek a long-term Program Coordinator through competitive bidding in the United States; this Coordinator will overlap with the interim coordinator for a period not to exceed three months and will remain in Mali for two years.

USAID/Mali will also enter into an agreement with a U.S. firm to provide technical services in computerization as soon as this Program Agreement is signed. Through this contract, one long-term (18 months) Automation Coordinator and procurement services for hardware, software and computer supplies will be obtained as soon as possible. Short-term technical assistance and training support needs will be identified by the long-term technical assistance in the PCU. Up to 20 months of short-term assistance will be available as needed. In addition to these services, funding will be provided for the commodities needed to furnish and run the Program Coordination Unit (Annex B).

The PCU functions will, at the outset of the Program, consist of: (1) supervising the procurement of goods and service to be acquired and (2) monitoring GRM progress in fulfilling the conditions precedent of the EPRP in a timely manner, particularly with regard to launching the automation plan proposed for EPRP support.

On a continuous basis, the PCU will:

- communicate progress and problems to the Minister of Finance or his designate on a regular basis;
- report regularly to the USAID project manager (Program Economist) regarding the progress in implementing various measures specified as Conditions Precedent to Disbursement in the (long) Program Agreement;
- prepare all documentation necessary for joint disbursement of funds;
- arrange for the necessary policy studies, assessments, seminars, workshops to facilitate planning, implementation, and evaluation of policy reforms;
- monitor the issuance of any administrative decrees required for policy implementation;
- coordinate inter-ministerial and joint GRM/USAID reviews and evaluations of the policy reform program.

The PCU will also be required to assist in designing and negotiating Program modifications.

The Automation Specialist will be attached to the PCU but will have separate responsibilities:

- providing technical services related to the process of computer purchasing, burn-in, transportation, installation in Mali, training, and system operations;
- arranging for additional expertise (either from the U.S., France, or Mali) to provide training and computer services as required;
- coordinating with other donors as to complementary assistance in automation being provided by them to the GRM;
- trouble-shooting on all systems installed with EPRP support; and
- advising on and guiding the gradual upgrading of the systems as experience is gained and new requirements demonstrated by the various users.

4. <u>Special Provisions</u>:

This Program will not be subject to the conditionality associated with the Economic Policy Reform Program. Procurement of all goods and services will be managed by USAID/Mali.

Annex B

PROGRAM AGREEMENT

LIST OF GOODS AND SERVICES

1. Program Title: Economic Policy Reform Program

2. AID Project number: 688-0240

3. The following list of goods and services will be subject to the terms of this Program Agreement:

Program Coordination services

- Interim Program Coordinator (up to 12 person-months)
- Program Coordinator (24 months)
- Automation Specialist (12 months)
- Short-term technical assistance (up to 20 person-months)

Computer Equipment

- Honeywell-Bull DPS 6-compatible equipment
- U.S.-made microcomputers
- Hard disk systems
- Dot-matrix printers
- Uninterrupted power supply systems
- Work stations for Honeywell-Bull DPS 6 equipment
- Cards for work stations
- Automatic power cut-in switch
- Air-conditioners
- Software (spreadsheets, database management, relational database, statistics, utilities, forecasting, financial analysis) in French
- Computer supplies
- Computer magazines (in French).

Office equipment

- Typewriter
- Chairs
- Desks
- Tables
- Photocopy machine
- Microcomputer and printer
- Vehicle, POL

Office support

- Allowances for staff (overtime, per diems)
- Office supplies (paper, pencils, etc.)

Training Materials

- Visual display materials
- Paper, pencils, notebooks, etc.

PROGRAM GRANT AGREEMENT

ECONOMIC POLICY REFORM PROGRAM: MALI

ARTICLE 1: THE GRANT

Pursuant to the Foreign Assistance Act of 1961, as amended, and related authority, the United States of America, acting through the Agency of International Development ("AID"), hereby agrees to grant to the Republic of Mali ("Grantee"), under the terms of this Agreement, an amount not to exceed $16.7 million to promote economic development in the Republic of Mali.

ARTICLE 2: PROGRAM DESCRIPTION

In late 1984, the U.S. Government announced its intention to launch a five-year program to support economic reform efforts in a limited number of African countries. Congress was asked to approve a funding level of $500 million for this program in the FY 85 budget. Congress endorsed a one-year program at a level of $75 million, without, however, providing for continuation of this financing after FY 85. Mali was one of the nations selected by the U.S. Agency for International Development (AID) to participate in this Economic Policy Reform Program (EPRP).

The program described here recognizes the important policy reforms already initiated by the Government of the Republic of Mali (GRM) and provides support for certain actions which the GRM will undertake over the next three years to implement these reforms. Macroeconomic and sectoral policies are increasingly perceived in Mali as key constraints to further growth of the Malian economy and to improving the productivity of the Malian population. The broad lines of financial and economic policy reform have been clearly drawn over the past three or four years and are generally accepted. There is an increased willingness to allocate to the private sector an increased role where the ownership and management of the public sector have been shown to be ineffective.

The purpose of the EPRP is twofold: first, to support the GRM in its efforts to provide an environment conducive to increased growth and employment generation in the private sector, and, second, to reduce the burden of the public sector on the economy while increasing its efficiency.

The EPRP/Mali will have two principal components involving sustained action. The measures which constitute the first component are designed to increase economic opportunity and growth of employment in the private sector, through:

- tax reform leading to a lighter tax burden, more equitably distributed, more readily collected, and providing more incentives for growth and the creation of employment, fewer incentives to evasion and fraud, and applied with more rigor by the tax administration services.

- the reduction of government regulation of private sector activity to a minimum.

Regulatory change (Commercial Code, pricing, and external trade) are considered to be preconditions for successful implementation of tax reform.

The second component will be directed toward a reallocation of budgetary expenditures, i.e., an increase in non-wage recurrent expenditures and investments necessary for the administration to effectively carry out its essential tasks. This will be achieved, in the first instance, by reducing the growth of civil service personnel costs, and in the second instance, by redirecting budgetary savings to non-wage expenditures.

Privatization of public enterprises will be launched before the budgetary restructuring action is initiated. A similar approach for reducing employment in both public enterprises and the Civil Service will be used.

Disbursements of EPRP funds will be made in tranches, reflecting progress made by the GRM in developing concrete programs for policy-related actions and in carrying them out. The specific mechanisms for such disbursements are described in detail in Section 3.

Overall supervision of the Economic Policy Reform Program will be exercised by the Minister of Finance. Continuous monitoring and support for the EPRP activities will be provided by a Program Coordinating Unit (PCU) in the Ministry of Finance.

ARTICLE 3: CONDITIONS PRECEDENT TO DISBURSEMENT

Section 3.1 First Disbursement

Prior to the first disbursement under the Grant, or to the issuance by AID of documentation pursuant to which disbursement will be made, the Grantee will, except as AID may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID:

A. A legal opinion that the Program Grant constitutes a legal and binding agreement for the GRM.

B. A statement representing and warranting that the named person or persons have the authority to act as the representative of the GRM, pursuant to Section -- , together with a specimen signature of each person certified as to its authenticity.

C. Evidence that quarters have been established in the Ministry of Finance for the Program Coordination Unit (PCU).

D. Evidence that two qualified Malians have been designated to work collaboratively with one expatriate adviser in the PCU; they will be assigned for a period of up to three years.

E. A statement designating the bank and account number into which disbursement is to be made.

The GRM will also, at the time of signing the Program Agreement, sign a Short Form Grant Agreement which will provide for the services of an expatriate technical consultant to assist the Program Coordination Unit and an Automation Specialist and arrange for the procurement of a specified list of goods and services related to the computerization of specified functions in the Ministry of Finance, the National Commission for Administrative Reform, and the Ministry of Employment and Civil Service.

Section 3.2 Additional Disbursements

A. Tax Reform: The "First Component"

1. Before the disbursement of the first tranche of funds for the first component of the program, the GRM will:

(a) Present evidence of Council of Ministers approval of revised texts, by decree or otherwise, regarding the Commercial Code, the regulation of prices, and the control of external trade.

(b) Furnish a three-year action plan for conducting tax reform in Mali and a detailed action plan, acceptable to USAID, for the first year of tax reform activity. This one-year plan should include estimations of possible revenue shortfalls and gains likely to be realized as a result of implementation of the plan.

2. Before the release of the second tranche of tax reform-related disbursements, the GRM will present evidence of legislative enactment of the revised texts regarding the Commercial Code, the regulation of prices, and the control of external trade.

3. Before the release of the second and third tranches of funds for the first Program component, USAID and the GRM will jointly review the results of the previous year of tax reform and adjust the funding programmed for the succeeding year as needed. The adjustment process is described in detail in Annex I of the PAAD.

In sum, the GRM will:

(a) Present written evidence of the estimated revenue loss realized in the previous year due to the implementation of the program and if estimated revenue gains made due to improved tax administration.

(b) Present a detailed action plan for the succeeding year of tax reform activity.

(c) Demonstrate satisfactory progress in implementation of the preceding year's program.

B. Budget Restructuring: The "Second Component"

1. Before the disbursement for the first tranche of the second program component, the GRM will:

(a) Fulfill all conditions precedent for the first tranche of the first component.

(b) Computerize the payroll; all centrally-paid employees will have been paid through the computerized system.

(c) Put the new budget account classification system in operation for receipts as well as expenditures.

(d) Demonstrate evidence of having launched the privatization of public enterprises.

(e) Develop detailed administrative arrangements governing the voluntary early retirement program; the Ministry of Finance, the Ministry of Labor and Civil Service, and AID will agree as to feasiblity of implementation.

(f) Develop detailed arrangements for the functioning of the Feasibility Study Fund and the Credit Guarantee Fund; the Ministry of Finance, BCEAO, and AID will have agreed as to feasibility of implementation.

(g) Develop detailed disbursement procedures for the first tranche of EPRP financing, satisfactory to AID; AID and the Ministry of Finance will also agree on constitution of various local currency funds.

(h) Determine a ceiling, acceptable to AID, for new recruitments into the Civil Service for 1987, which takes into account recruitments by category, the average salary level (expressed in index numbers) of a new recruit, and the value of an index point. AID has tentatively projected a ceiling for 1987 of 1100 persons.

(i) Target improvements in the structure of the budget, acceptable to AID, expressed in terms of budget indicators which will have been mutually determined, dealing with the ratio between personnel expenditures and non-wage recurrent outlays. AID has tentatively identified materials/personnel expenditures ratios of 0.327 and 0.37 as acceptable ratios for 1986 and 1987.

2. Prior to the release of each tranche of the second component, the GRM and USAID will jointly evaluate the implementation and impact of measures included in the second component for the period covered by the preceding tranche. They will agree upon any necessary modifications in the component design for the following period.

In addition, the GRM will:

(a) Determine adherence to the 1987 ceiling on new hires into the Civil Service and determine a ceiling, acceptable to USAID, for new recruitments into the Civil Service for 1988. This ceiling will, as in the previous year, taken into account recruitments by category, the average salary level (expresssed in index numbers) of a new recruit, and the value of the index point. AID has tentatively projected ceiling levels for 1988 at 800 new entrants.

(b) Demonstrate effective control of expenditures in the preceding year and target improvements in the structure of the budget for the following year. This target should be acceptable to USAID and expressed in terms of specific budget indicators dealing with the ratio between materials/personnel expenditures. AID has tentatively identified a ratio of 0.34 as an acceptable target ratio for 1988.

Section 3.3 Notification

When AID has determined that the conditions specified in Sections 3.1 and 3.2 have been met, it will promptly notify the Grantee.

When the Grantee has constituted various local currency funds associated with program objectives, particularly with regard to privatization of state enterprises and personnel reduction efforts, it will promptly notify AID.

Section 3.4 Terminal Dates for Meeting Conditions Precedent

If all conditions specified in Section 3.1 have not been met within 30 days from the date of this Agreement, or such later date as AID may specify in writing, then AID, at its option, may terminate this Agreement by written notice to the Grantee.

ARTICLE 4: DISBURSEMENT (MECHANISMS FOR DISBURSEMENT)

After satisfaction of the conditions specified in Section 3.1, the Grantee may request AID to disburse the Grant. After review and approval of the documentation submitted by the Grantee, AID will disburse the initial tranche of the Grant to the bank and account number designated by the Grantee.

Satisfaction of conditions in Section 3.2 will require joint evaluations by the GRM and AID of plans prepared by the GRM. These evaluations will be scheduled at least 30 days before they are to be held, to permit thorough review of relevant documents. The PCU will be responsible for preparing the documentation for distribution and the Minister of Finance (or designate) will ensure that involved parties receive relevant documentation.

If, as a result of the evaluation, it is determined that conditions established in Section 3.2 have been adequately fulfilled, the Grantee may request AID to disburse specified tranches of the Grant. After review and approval of the documentation submitted by the Grantee, AID will disburse the specified tranche of the Grant to the bank and account number designated by the Grantee.

It is planned that disbursements for the first component of the program will be made on an annual basis, closely linked to the budget planning cycle of the Grantee, that is, in the November - January period.

Disbursements for the second component are not fixed in time, and will depend on progress made in personnel and budget management. It is likely that the first tranche for the component will be disbursed in early calendar year 1986.

ARTICLE 5: COVENANTS

Section 5.1 Accuracy of Information

The Grantee confirms:

That the facts and circumstances of which it has informed AID or caused AID to be informed about in the course of reaching agreement with AID on this Grant, are accurate and complete, and include all facts and circumstances which might materially affect this Grant and the discharge of responsibilities under this Agreement.

Section 5.2 Agree to Inform AID of any Changes in Circumstances

The Grantee confirms that it will inform AID/Bamako in a timely fashion of any subsequent facts or circumstances that might materially affect, or that it is reasonable to believe might affect, the Grant or the discharge of responsibilities under this Grant.

Section 5.3 Special Covenants

Except as the Parties may otherwise agree in writing, the Grantee covenants that it will, throughout the duration of the Program:

A. Assure the presence of adequate technical expertise in the Direction des Impots and the Direction des Douanes to monitor the results of the proposed tax reform activity.

B. Maintain its policy of not recruiting contractual employees in those categories and otherwise strictly limiting personnel recruitment .

C. Assure that funds for (1) the privatization of of public enterprises and (2) general budgetary support have been used for the purposes intended (that is, severance pay, pension guarantees, credit guarantees, and feasibility studies)..

D. Assure the assignment of the same personnel to the PCU for the duration of the program as far as possible; AID will agree as to changes which may be necessary.

E. Establish a program for publicizing regulatory or administrative changes enacted with respect to the Commercial Code, price regulation, and tax reform. In addition to normal mass communication channels, direct communication channels with interested groups should be encouraged and used.

F. Establish procedures (in addition to automation of the payroll) to ensure that civil servants leaving the Civil Service through the Voluntary Early Retirement Program are not rehired into Government service.

G. Allocate to the PCU adequate powers for the monitoring and evaluation of the Program. Except as otherwise agreed in writing, "evaluation" will include: (1) evaluation of progress towards attainment of Program objectives; (2) identification and assessment of problem areas or constraints which may inhibit such progress; and (3) to the extent feasible, an evaluation of the overall impact of the program at its conclusion.

Section 5.4 Compliance with IMF Requirements

The Grantee agrees to comply with the terms and conditions of the International Monetary Fund (IMF) Stand-By Agreement for 1986-1987, if such an agreement is concluded.

The Grantee agrees to furnish to AID, upon issuance, copies of all statistical reports furnished to the IMF or other donors relative to Grantee's compliance with the reform program, set forth in the IMF Stand-By Agreement for 1986-87, if such an agreement is concluded.

Section 5.5 Free of taxes clause

The Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in Mali.

Section 5.6 Rate of Exchange

For purposes of determining the amount of local currency to be deposited by the Grantee in any Special Accounts created for the implementation of the Economic Policy Reform Program, the Grantee shall use the highest rate of exchange which, at the time of disbursement under the Grant, is not unlawful in Mali. As used in the preceding sentence, the "highest rate of exchange" is the rate of exchange which yields the greatest amount of local currency per dollar, except as the Parties may otherwise agree in writing.

Section 5.7 Agreement not to Change Laws after the Fact

The Grantee agrees that, upon fulfillment of conditions outlined in Section 3.1 and the first disbursement relating to the first and second components, additional laws and regulations will not be enacted to abrogate the effect of those which fulfilled the conditions.

ARTICLE 6: SPECIAL ACCOUNTS

Section 6.1 Local Currency Accounts

A. Upon receipt of the first annual tranche of the first component, the Grantee will establish a "Tax Account" in the bank of its choice and deposit therein currency of the Republic of Mali in amounts equal to disbursements under the grant. Funds in the Tax Account may be used to compensate the Treasury of the GRM for tax revenue shortfalls realized as the result of tax reform, according to a proportion to be agreed-upon by the GRM and AID, and for the improvement of tax administration, as outlined in the annual action plan.

Section 6.2 Generally-Accepted Accounting Principles

Generally-accepted accounting principles will be used in the establishment and management of any of the GRM special accounts to permit assessment of use of these funds.

Section 6.3 Additional Separate Accounts

The Grantee will, upon fulfillment of the conditions outlined in Sections 3.1 and 3.2.B, constitute from its own resources the following accounts:

A. The "Privatization Fund"

This account will be used exclusively for actions related to the privatization or liquidation of selected state enterprises.

B. The "Early Departure Fund"

The Grantee will also constitute from its own resources an Account, hereafter known as the Early Departure Fund, with which it will assure the implementation of (1) the Voluntary Early Departure Program, (2) the Credit Guarantee Fund, and (3) the Feasibility Study Fund. If the GRM so desires, it may establish the Credit Guarantee Fund and Feasibility Study Funds as separate accounts in the BCEAO or manage them as sub-accounts of the Voluntary Early Departure Fund.

Section 6.4 Use of Special Accounts

A. The "Tax Account" will be used for

(1) the compensation of revenue shortfalls and

(2) costs of improved tax administration.

The amount of each additional disbursement to the Tax Account will be fixed in a declining proportion of gross revenue losses resulting from tax reforms. Annual reviews will provide for possible adjustment of the proportion indicated by the terms of the Grant.

Section 6.5 Use of Additional Special Accounts

A. The Privatization Fund constituted by the Grantee from its own resources will be subject to disbursement mechanisms developed by the Ministries and other organizations. The Ministry of Public Enterprise will, in collaboration with the Ministry of Plan, the individual state enterprises, and the Ministry of Employment and Civil Service, prepare a detailed plan for the privatization of selected enterprises. This plan will be transmitted to AID for information. Upon its approval by the Malian entities concerned, the Ministers of Public Enterprise and Employment will jointly request, in writing, the transferral of required financing to the public enterprises being privatized.

B. The Early Departure Fund constituted by the Grantee from its own resources will be subject to disbursement mechanisms developed by the Ministries concerned (Finance, Plan, Employment and Public Service), the National Commission for Administrative Reform, and both public and private banks involved in Fund management. The Ministry of Employment will describe, in writing, the operation of the Voluntary Early Retirement Fund to the satisfaction of all participating Malian entities.

The Central Bank will describe, in writing, the operation of the Credit Guarantee and Feasibility Study funds and, upon approval by all participating banks, will manage the funds in accordance with the procedures established.

ARTICLE 7: TERMINATION; REMEDIES

Section 7.1 Termination

This Grant Agreement may be terminated by mutual agreement of the Parties at any time. Either Party may terminate this Grant Agreement by giving the other Party thirty (30) days' written notice.

Section 7.2 Suspension

If at any time:

A. The Grantee shall fail to comply with any provision of this Grant Agreement; or

B. Any representation or warranty made by/on behalf of Grantee with respect to obtaining this Grant or made under this Agreement is incorrect in any material respect; or

C. An event occurs that AID determines to be an extraordinary situation that makes it improbable either that the purpose of this Grant will be attained or that the Grantee will be able to perform its obligations under this Agreement; or

D. any disbursement by AID would be in violation of the legislation governing AID; or

E. a default shall have occurred under any other agreement between the Grantee or any of its agencies and AID or any of its agencies;then AID may suspend or cancel this Agreement.

Section 7.3 Cancellation by AID

If, within sixty (60) days from the date of any suspension pursuant to Section 6.2, the cause or causes thereof have have not been corrected, then AID may cancel any part of this Grant that is not then disbursed or irrevocably committed to third parties.

Section 7.4 Non-waiver of remedies

No delay in exercising or omitting to exercise, any right, power, or remedy accruing to AID under this Agreement will be construed as a waiver of such rights, powers, or remedies.

ARTICLE 8: MISCELLANEOUS

Section 8.1 Implementation Letters

Section 8.2 Representations

Section 8.3 Communications

Section 8.4 Information

Section 8.5 Language of Agreement

Section 8.6 Attestation Clause

ANNEX K

EPRP DESIGN TEAM

Louis de Merode, Program Economist
Robert Shoemaker, Design Team Coordinator
Edward Dragon, Legal Consultant
James Elliott, Economist
Jean-Claude Garcia-Zamor, Personnel Specialist
Sheldon Gellar, Institutional Analyst
Kenneth Ribyat, Computer Specialist
Rene Puttemans, Banking and Credit Specialist
Pascal Salin, Tax Specialist
Emmy Simmons, Agricultural Economist

ANNEX L.

UNCLASSIFIED

Department of State

OUTGOING TELEGRAM

STATE 059974 5999 078319 AID6999

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ORIGIN OFFICE AFDR-06
INFO AFCO-02 AFFW-04 AFDP-06 AMAD-01 AFDA-01 RELO-01 MAST-01
/022 A0

INFO LOG-00 AF-00 EB-08 /008 R

DRAFTED BY: AID/AFR/PD/SWAP: SPSHAH: EDB
APPROVED BY: AID/DAA/AFR: ARLOVE
AID/AFR/SWA: DCHANDLER (SUBS) AID/AFR/PD: I HAUSMAN (DRAFT)
AID/AFR/DP: JELLIOTT (INFO)
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FM SECSTATE WASHDC
TO AMEMBASSY BAMAKO PRIORITY

UNCLAS STATE 059974

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: MALI - ECONOMIC POLICY REFORM PROGRAM PAIP DOCUMENT

MALI EPRP PAIP DOCUMENT WAS REVIEWED AT AN ECPR CHAIRED BY DAA/AFR, A. R. LOVE ON FEBRUARY 25, 1985. THE DOCUMENT WAS APPROVED FOR FINAL DESIGN IN MALI AND AUTHORIZATION IN AID/W, SUBJECT TO CERTAIN CONDITIONS WHICH WILL BE INCLUDED IN A GUIDANCE CABLE TO FOLLOW. SHULTZ

UNCLASSIFIED

ORIGIN AID-00

ORIGIN OFFICE AFDR-06
INFO AAAF-02 AFFW-04 AFDP-06 FPA-02 PPPB-02 GC-01 GCAF-01
GCFL-01 STRD-01 PPR-01 SAST-01 AFDA-01 RELO-01 MAST-01
PRE-06 /037 A1 302

INFO LOG-00 AF-00 EB-08 SSO-00 /098 R

DRAFTED BY: AID/AFR/PD/SWAP:WKING
APPROVED BY: AID/DAA/AFR:ARLOVE
AID/AFR/SWA:DCHANDLER AID/AFR/PD:LHAUSMAN
AID/AFR/DP:JWOLGIN (DRAFT) AID/AFR/DP:FJOHNSON (DRAFT)
AID/ST/RD/DA:RSHOEMAKER (DRAFT) S/S-O:RVANHEUVEN
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AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: MALI - ECONOMIC POLICY REFORM PROGRAM PAIP REVIEW

1. THE PRINCIPAL ISSUES DISCUSSED AT SUBJECT ECPR WERE (A) WHETHER AID SHOULD PURSUE REFORM MEASURES IN ALL THREE AREAS; (B) WHETHER AID FUNDS OR COUNTERPART LOCAL CURRENCY SHOULD BE USED FOR SEVERANCE PAY, PENSION BENEFITS OR LOAN GUARANTEES; AND (C) HOW TECHNICAL ASSISTANCE FUNDS SHOULD BE USED.

2. THE ECPR'S GUIDANCE IS SET FORTH BELOW. PER REFTEL, USAID/MALI'S CONCURRENCE IS REQUESTED WITH THE ECPR'S CONCLUSIONS:

--- (A) REFORM MEASURES: THE BASIC OBJECTIVE OF THE MALI EPRP IS TO REDUCE THE PUBLIC PAYROLL AND TO IMPROVE THE EFFICIENCY WITH WHICH GOVERNMENT SERVICES ARE DELIVERED. THE DESIGN TEAM SHOULD EXAMINE WHETHER

SERVANTS TO BE ABSORBED INTO EFFICIENT PRIVATE SECTOR ACTIVITIES. AID INVOLVEMENT IN PUBLIC SECTOR ENTERPRISE REFORM HAS A LOWER PRIORITY AND SHOULD ONLY BE PURSUED IF THE DESIGN TEAM DETERMINES IT IS NECESSARY FOR SUCCESS OF THE MALI EPRP.

--- (B) SEVERANCE PAY AND PENSION BENEFITS: NEITHER AID DOLLARS NOR COUNTERPART LOCAL CURRENCY SHOULD BE ATTRIBUTED TO FINANCING CIVIL SERVANT'S SEVERANCE PAY, PENSION BENEFITS OR LOAN GUARANTEE PROGRAMS. FUNDS IN THE SPECIAL LOCAL ACCOUNT SHOULD BE USED TO FINANCE AGREED UPON ITEMS FOR WHICH CRITERIA WILL BE SPECIFIED IN THE PAAD.

--- (C) TECHNICAL ASSISTANCE: A PORTION OF FUNDS AVAILABLE UNDER THE TECHNICAL ASSISTANCE COMPONENT SHOULD BE USED TO (1) STUDY THE MALIAN TAX SYSTEM, PARTICULARLY THE TAX RATES AND STRUCTURE AND THEIR IMPACT ON PRIVATE INVESTMENTS AND EFFICENCY; (2) TO MONITOR ABSORPTION OF RETIRING CIVIL SERVANTS INTO THE MALIAN PRIVATE SECTOR, IN ORDER TO IDENTIFY PROBLEMS THAT PREVENT THEM FROM FINDING EMPLOYMENT OPPORTUNITIES FOR THEMSELVES; AND (3) TO INVESTIGATE POLICY AND INSTITUTIONAL CONSTRAINTS TO PRIVATE SECTOR DEVELOPMENT WITH A VIEW TO IDENTIFYING WAYS TO REMOVE THEM.

3. THE PRINCIPAL CONCERNS RAISED AT THE ECPR ARE: (A)

LEVEL OF FUNDING; (B) STRATEGIES FOR ABSORPTION OF CIVIL SERVANTS INTO PRIVATE SECTOR; (C) TIMING OF TAX ADMINISTRATIVE IMPROVEMENTS AND TAX REFORM; AND (D) PRIVATIZING UNITS OF GOVERNMENT.

-- (A) LEVEL OF FUNDING: DOLS 18 MILLION PROPOSED FOR MALI EPRP WAS QUESTIONED IN VIEW OF OTHER ANTICIPATED CLAIMANTS ON FY 1985 EPRP FUNDS. SINCE THE MALI EPRP WAS THE FIRST TO BE REVIEWED AND THE AVAILABILITY OF EPRP FUNDS IN SUBSEQUENT FISCAL YEARS STILL UNCERTAIN THIS QUESTION COULD NOT BE FULLY RESOLVED AT THE ECPR. WE WILL ATTEMPT TO RESOLVE THIS CONCERN IN THE NEAR FUTURE. USAID/MALI AND THE PAAD DESIGN TEAM SHOULD BE AWARE THAT BUDGETARY RESOURCES COULD RESULT IN MODEST CHANGES IN THE LEVEL OF FUNDING.

--- (B) STRATEGIES FOR ABSORPTION OF CIVIL SERVANTS INTO PRIVATE SECTOR: BEYOND THE SEVERANCE PAY, PENSION BENEFITS AND LOAN GUARANTEE PROGRAMS WHICH THE GRM MIGHT FUND, IT WAS SUGGESTED THAT OTHER PROGRAMS SHOULD BE ESTABLISHED TO AMELIORATE UNEMPLOYMENT ARISING AS A

WE CONSIDERED THAT IN THE ABSENCE OF DATA WHICH SUGGESTS RETIRING CIVIL SERVANTS ARE UNABLE TO FIND EMPLOYMENT IN THE PRIVATE SECTOR THERE IS REALLY NO JUSTIFICATION FOR PROGRAMS SUCH AS RETRAINING AND PLACEMENT OF RETIRING CIVIL SERVANTS WHICH ARE NOTORIOUS WORLD-WIDE FOR THEIR HIGH COSTS AND INEFFECTIVENESS. HOWEVER, IN ORDER TO DEVELOP INFORMATION AS TO THE ABSORPTION IN THE PRIVATE SECTOR OF RETIRING CIVIL SERVANTS, WE CONCLUDED CLOSE MONITORING OF THEIR ENTRY INTO THE PRIVATE SECTOR IS WARRANTED.

--- (C) TIMING TAX REFORM AND ADMINISTRATIVE IMPROVEMENTS: DESIGN AND IMPLEMENTATION OF TAX ADMINISTRATIVE IMPROVEMENTS (IF ANY) WERE DISCUSSED AT THE ECPR. WE CONCLUDED THIS COMPONENT SHOULD BE INCLUDED IN THE MALI EPRP ONLY IF IT IS DETERMINED TO BE CRITICAL TO THE PROGRAM'S SUCCESS. WE ALSO CONCLUDED ... MALI EPRP SHOULD NOT PROPOSE IMPROVEMENTS IN TAX ADMINISTRATION UNLESS TAX RATES AND STRUCTURE ADJUSTMENTS ARE TO BE MADE AT THE SAME TIME.

--- (D) PRIVATIZING UNITS OF GOVERNMENT: IT WAS SUGGESTED THAT THE MALI EPRP COULD MAKE PROVISIONS FOR EXAMINING PRIVATIZATION OF SOME FUNCTIONS TRADITIONALLY PERFORMED BY THE GRM. EXAMPLES OF FUNCTIONS THAT COULD BE PRIVATIZED ARE TRANSPORT AND TRUCKING SERVICES, VETERINARY SERVICES, THE DELIVERY OF HEALTH AND EDUCATION SERVICES AND THE SUPPLY OF AGRICULTURAL INPUTS AND MARKETING SERVICES.

4. THE PROJECT COMMITTEE (PC) REVIEWED USAID/MALI'S SUGGESTIONS AS TO THE COMPOSITION OF THE PAAD DESIGN TEAM AND SEPTEL WILL FOLLOW. ARMACOST